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AUSTIN H. CARR, Editor,
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(The opinions expressed in articles in The Canadian Chartered Accountant are the opinions of the writers of the articles and are not necessarily endorsed by the Association.)

Editorial Comment

Mr. Ilsley's Record Budget

By now nearly everybody "touched" by the tax increases in the 1942-43 budget of the Minister of Finance will have made some calculations as to what part of his income he can really call his own, and will have come to some conclusions about the future ordering of his being. One thing the budget has brought home to us all is the tremendous cost of modern war; this Dominion will spend in the year ending 31st March 1943 nearly $4,000,000,000, the bulk of which will be for our military commitments on many fronts.

When this month's issue went to press, the amendments to the *Income War Tax Act* and *The Excess Profits Tax Act* had not received Royal assent, and will therefore have to be included in our September issue. However, immediately Dominion tax act amendments are passed, copies are sent by the office of the Dominion Association to members of the Association resident in Canada, and additional copies are available in accordance with an announcement appearing elsewhere in this issue.

Possibly a number of our readers are already subscribers to the *House of Commons Debates* and have read the Budget

address reported in full therein at pages 3886 to 3920, and in particular the discussions on the amendments to the *Income War Tax Act, The Excess Profits Tax Act,* the *Dominion Succession Duty Act,* and the *Special War Revenue Act.* Mr. Ilsley's enlightening explanations of the significance of the changes in the excess profits tax given in parliament on 14th July are published elsewhere in this issue.

To those who are not aware of the opportunity of keeping in touch with the daily discussions of parliament we pass the word along that anyone may have his name placed on the mailing list to receive the daily debates of parliament for a session by sending three dollars to the King's Printer, Ottawa. With regard to the present discussions in our House of Commons, may we note, in passing, that parts of it are important and on a high intellectual plane. A considerable portion, however, is trivial beyond words for a nation otherwise conspicuously directing its talents and its resources to the winning of the war. That possibly is one of the prices to be paid for democracy.

Problems in Tax Administration

The public reaction to Mr. Ilsley's record budget has been one of general approval, with a considerable measure of admiration for its innovations and revised methods of tax collection. No matter what the impost, there are always some who regard themselves as unduly affected thereby, and that is the case with the new tax amendments. Credit is due to Mr. Ilsley for his vision and resourcefulness in these strenuous days and to his able assistants and collaborators in the Departments of Finance and National Revenue. The problem that concerns these departments, and the employers and others in industry who are expected to co-operate in the collection of taxes, is the method or system of such collection operative from 1st September next. Regulations will be issued in due course, and our editorial committee has offered to the Commissioner of Income Tax the services of The Canadian Chartered Accountant in making these more widely known.

Already the employer has part of the machinery set up for collecting the new taxes since the national defence tax has been deducted from the weekly or monthly payments to employees and settlement made with the government. The periodic deduction for income tax and enforced savings

portion each pay-day will be an extension of the system. Corporations and firms deserve the highest praise for the service which they have willingly given the government in the collection of taxes and for the readiness with which they now accept further free services for the Department of National Revenue.

Taxes and Prices

The tax changes provide the Wartime Prices and Trade Board with a most effective means of preventing inflation. With increased employment due to the war and the consequent flow of about $2 billions of new income into the pockets of the people, and with the decrease in supply of consumers' goods, the price control system was, and still is, being subjected to severe pressure. Now through increased defence tax (under the new name of "normal" tax) and further deductions at the source for income tax and enforced savings, the consumer has not even the chance or satisfaction of handling part of his earnings.

Compulsory Saving

The insurance companies have played an important role in the financing of the country's war effort. Millions of dollars of the savings of Canadians invested in life insurance policies have in turn been invested in government bonds. When framing the proposed changes in the tax statutes to discourage individual spending and to bring about enforced saving, the Department of Finance realized that unless something were done about it taxpayers would most likely include in their curtailment program premiums on life insurance policies. A serious condition in the liquid position of the companies would ensue through surrender of policies, lapses of contracts and lack of new business. It was a wise move, then, to provide in the budget for the dovetailing of the individual's system of saving through life insurance into the compulsory savings plan of the government by providing for some deduction from "forced savings" for insurance premiums.

United States-Great Britain Mutual Aid

When Great Britain stood alone in her gallant fight against the creeping plague of Nazi domination of Europe and was being denied financial credit by the United States for armaments, it was the vision of a world statesman in this other great freedom-loving nation

that helped to solve the Mother Country's pressing problem of a continuous flow of supplies to combat the German oppressors. Out of that vision of President Roosevelt came the plan of lend-lease aid, and the wisdom and necessity of that policy have become more and more apparent with every passing month.

Last December the United States found herself also one of the twenty-six United Nations forced into a struggle for the preservation of freedom and for the ultimate establishment of a peace by which the rights of all nations of the world shall be mutually respected. That policy of lend-lease supplies has now been extended to other Allied Nations to meet the expanding need on many fronts. What are the terms of the mutual-aid agreement between the United States and Great Britain signed at Washington last February? What returns are to be made by Great Britain to the United States after the war? These are some of the questions that occur to members of our profession who are thinking of the accounting problems involved when settlement follows the peace. Some reference to post-war adjustments are set forth in Article V of the agreement and some of the considerations entering into the settlement on the economic side are given in Article VII.

Elsewhere in this month's issue we give the text of the agreement as published by the Department of State at Washington in its *Bulletin* of 28th February 1942.

(Contributed)

Accounting versus Corporation Finance

Although there is a close correlation between the fields of accounting and corporation finance, any examination of principles applicable to either field should be viewed from the standpoint of the field to which they apply. This fact is particularly significant if any hope is to be held for the development of a sound group of principles underlying the field of accounting.

In reference to the item of organization expenses the question as to whether or not such costs are properly assignable as an offset to the revenue of a given period has frequently arisen. From the accounting standpoint the treatment should be such as to produce an accurate measurement of periodic income which will involve a true matching

of costs and revenue for any given period. The accounting principle is frequently combined with the corporation finance principle of "conservatism" producing a confused combined principle which is set out as an accounting principle, "write off such expenses as charges to operations over a period of from three to five years."

An examination of the often quoted accounting principle, "anticipate no profits and provide for all losses," carries a distinct colouring of "conservatism" which belongs to the field of business finance and should be recognized as such. As long as a division is not clearly made in our accounting thought and reasoning, segregating the field of corporation finance from the field of accounting, there appears to be little hope of developing within the accounting profession logical accounting principles which will serve to place the profession on a firmer professional standard.

In the creation of certain types of reserves (equity reserves) the accounting profession does make the necessary segregation as between the fields of accounting and corporation finance in such a manner that the corporation finance principle of conservatism is clearly segregated from the accounting principle of the required matching of costs and revenue in the periodic measurement of income. This is accomplished by an appropriation of profits rather than by a charge against operations. The question arises as to whether or not all situations bearing the earmarks of conservatism could not be dealt with in the same manner.

TAXES ON CORPORATION INCOME

A Comparative Study of the Years 1936-39 Inclusive and 1941

By C. B. Wade, Chartered Accountant,*
Kingston, Ontario

THIS article comprises what may be called a gross analysis of the effect of 1941 corporation taxation on 104 Canadian public corporations. The analysis is "gross" because a more detailed investigation and one including more corporations, would involve time and labour that at the moment cannot be spared. Yet it would seem very desirable that some information on 1941 corporation taxation be made available to those numerous people who are keenly interested in this aspect of war policy.

Nature of Data

The general structure of the analysis is a comparison of the average profits of 1936-1939 with those of 1941. The figures are compiled from published financial statements from which the writer has, for several years, been collecting data. The study has been confined to 104 corporations (including their several hundred subsidiaries) because of the time involved for the coverage of the remaining hundred or so public corporations from whose statements the writer has been collecting data. The 104 corporations are not "selected," but were arbitrarily picked from those whose 1941 statements were available. They do not include gold mines, privately owned utilities, merchandising concerns nor the pulp and paper companies.

The word "profit" as here used refers to what is commonly known as "earnings," less bond interest. Profit, instead of earnings, is the figure of chief interest, because taxes on income are taxes only on that part of a corporation's income that is payable to shareholders as distinct from any other investors. The rate of profit is the profit expressed as a percentage of shareholders' equity, that is, of capital stock plus appropriated and unappropriated undistributed income. But the "profits" recorded on the financial statements are not necessarily the "profits" of this study, adjustments having been made when necessary and possible for (1) items of cost and income which do not,

*An article by Mr. Wade on the valuation of inventories was published in the April issue.

according to accepted standards of income measurement, affect the measurement of current income, (2) inventory reserves set up in accordance with *The Excess Profits Tax Act*, when the amounts of these were revealed, as they were in about fifty per cent of cases, and (3) appropriations of income when these were shown as costs.

Depreciation

No adjustment has been made for depreciation charges in spite of the fact that part of their very significant increase in 1941 without doubt should not enter into the calculation of 1941 net income. A considerable part of the 1941 increase in these charges over the 1936-1939 average represents depreciation on plant acquired specifically for war orders. Such plant is being written off arbitrarily over two to four years. This obviously is a wartime measure and does not seem to represent simply a reasonable estimate of the useful life of such plant. In such case depreciation costs are possibly in this analysis overstated.

However, it was quite impossible to segregate the depreciation as between those amounts measuring reasonable estimates of depreciation incurred and those being merely part of the technique of tax calculation.

The aggregate average depreciation charged by the 104 corporations during 1936-1939 was $37,142,000 and in 1941 the amount charged was $79,491,000. These charges, then, increased 114%. A breakdown of these figures is given below.

TABLE I

Depreciation recorded by 104 Corporations

1936-1939 Average, and 1941

Number of companies and Class[1]	1936-1939 Average depreciation	Percentage increase	1941 Depreciation
Under 4	4.432	138	10.579
4-5.9	4.417	49	6.613
6-6.9	7.107	131	16.483
10 and over	21.186	116	45.816
	37.142	114	79.491

[1]The companies are here classified according to their *average rates of profit* as recorded during 1936-1939.

The amount of profit after taxes, but before depreciation, was $240,112,000; depreciation charged was about 33% of this figure. Obviously then even moderate excess depreciation charges could have a very significant effect on the 1941 net profit measurement.

1941 Taxation

The table below is designed primarily to show the percentage of the increase in 1941 rates (not amounts) of profit that has been taken in taxes on income.

The companies have been classified first as between those that in 1941 recorded net profits[2] in excess of their 1936-1939 averages and those that recorded net profits below their 1936-1939 averages. The members of these two groups have then been classified according to their simple average rates of profit of the 1936-1939 period. Here five groups have been distinguished, namely, those that during 1936-1939 earned rates of profit on the average: (1) 10% and over, (2) between 6% and 9.9%, (3) between 4% and 5.9%, (4) under 4% but above zero, (5) nothing or less.

TABLE II

Increases in 1941 rates of profit before and after taxes, over 1936-1939 averages, and percentages of increases in rates of profit, taken in taxes. 104 Canadian Public Corporations.

No. of Co's 79	Class	Percentage Increase in rates of profit (before taxes)	Percentage increase in rates of profit (after taxes)	Percentage increase in rates of profit (before taxes) taken in taxes
79	I. Companies recording increases			
	Average ratese of profit 1936-1939:			
11	Zero or less	388.2	238.2	38.7
22	Under 4% but above zero	332.3	135.9	59.1
13	4% to 5.9%	140.0	42.5	69.5
19	6% to 9.9%	124.2	27.5	77.8
14	10% and over	62.5	19.5	68.8
25	II. Companies recording decreases			
	Average rates of profit 1936-1939:			
0	Under 4%	—	—	—
2	4% to 5.9%	14.7D[3]	30.1D	204.9
10	6% to 9.9%	36.7	9.3D	125.3
13	10% and over	5.9	14.0D	337.3

[2]This term will refer to profit after taxes on income.
[3]"D" indicates decrease.

The intention of *The Excess Profits Tax Act* seems to have been fulfilled, i.e., the higher the 1936-1939 average rate of net profit the smaller has been the increase in the 1941 rate of net profit over the 1936-1939 average. The exception to this seems to be the "10% and over" group.

The large increase in the rate of net profit of the "under 4%" group apparently reflects upward adjustments of standard profits by virtue of the depressed condition of these concerns during 1936-1939 or during some part of this period.

The fact that twenty-three companies (the "6% to 9.9%" group and the "10% and over" group) have had imposed on them taxes, which have taken more than the increases in their 1941 rates of profit before taxes, apparently indicates that their increases in rates of profit before taxes were insufficient to offset the increases since 1939 in the minimum rate of income and excess profits taxes.

It will be observed that only one group, comprising two companies, shows a decline in the rate of profit *before taxes.*

Rates of Profit, Before Taxes

Another very interesting fact brought out by these figures is the higher the 1936-1939 average rate of profit *before taxes,* the smaller has been the 1941 increase in the rate of profit *before taxes.* It seems certain that any explanation of this must consider the probability that the higher rates of profit during 1936-1939 reflect greater plant capacity used (relative to available capacity) during that period. The 1936-1939 low earning concerns doubtless have enormously increased their output relative to their 1936-1939 plant capacity without proportionate increases in overhead costs. An important overhead cost is depreciation. Doubtless many concerns charged no higher rate of depreciation in 1941 than they did on the average during 1936-1939, yet during 1936-1939 their output would have been much below that of 1941. It will be seen (dealing with group averages) that the percentages of the increases in rates of profit before taxes, that have been taken in increased income and excess profits taxes vary from a low of 38.7% to a high of 77.8%.

Rates of Net Profit Earned in 1941

The above figures, dealing only with percentage increases

and decreases in rates of profit and taxes, require supplementation by data on the actual rates of profit earned. One is concerned not only with how much is taken in taxes but also with how much is left.

The table below shows the simple average and the median rates of net profit earned by 79 companies during 1936-1939 and in 1941.

TABLE III

Rates of net profit earned during 1936-1939 and in 1941, by seventy-nine Companies

		Median rates		Simple average rates	
Number of companies	Class	1936-1939 %	1941 %	1936-1939 %	1941 %
79	Companies recording increases				
	Average rate of profit, 1936-1939:				
11	Zero or less		4.7	–3.3	4.7
22	Under 4% but above zero	3.0	6.2	2.8	6.6
13	4% to 5.9%	4.9	7.4	4.7	6.7
19	6% to 9.9%	7.4	9.7	8.0	10.2
14	10% and over	14.1	16.6	16.9	20.2

N.B. These are rates of profit after taxes, and cover only those companies that recorded increases in 1941 rates of profit over their 1936-1939 averages. The five groups are the same as those of Table II.

The above table shows the rates of profit (group averages) earned by seventy-nine corporations, but it does not reveal the amount of capital on which the various rates were earned.

Table IV below shows the amount of capital (shareholders equity) of the entire sample (104 corporations) classified according to the rates earned in 1941 and the average rates of 1936-1939.

TABLE IV

Amounts of capital classified according to rates of profit earned in 1936-1939 and in 1941. 104 Corporations

Class (Rate of Net Profit)	1936-1939			1941		
	Number of Companies	1936-1939 Capital $ millions	%	Number of Companies	1941 Capital $ millions	%
Zero or less	11	37.0	3.7	—	—	—
Under 4% but above zero	22	124.6	12.0	8	12.4	1.2
4% to 5.9%	15	106.7	10.2	23	151.8	12.9
6% to 9.9%	29	273.8	26.2	29	262.3	22.3
10% and over	27	501.5	47.9	44	748.0	63.6
	104	1,043.6	100.0	104	1,174.5	100.0

The median rate of net profit for the 104 corporations in 1941 was 8.9% and for 1936-1939 it was 6.3%.

Amount of Profits

For those who may be interested, the *amounts* of profits and taxes are shown below:

TABLE V

Amounts of profit earned by 104 corporations and taxes on income—1936-1939 average and 1941

	1936-1939 average '000	%	1941 '000	%	Percent increase
Profit, before taxes on income	153.199	100.0	276.275	100.0	80.3
Taxes on income	25.859	16.8	115.754	41.9	347.0
Net Profit	127.340	83.2	160.521	58.1	26.0

It will be noticed that 54.3% of the 1941 increase in the amount of profit before taxes (as distinct from the rate) has been taken in increased taxes.

Undistributed Profits

Corporation profits may be subject to two tax imposts, the one payable by the corporation, the other payable by

the shareholder if he receives any of the company's profit.

To round out the picture of 1941 corporation taxation it seems desirable to find out what proportions of the profits of the sample were subject to the two taxes. The table below classifies the companies of this sample according to the percentage of undistributed 1941 net profit.

TABLE VI

Undistributed 1941 profits classified as percentage of 1941 net profits
104 corporations

Class (Percentage of undistributed net profits)	Number of companies	Undistributed profits '000
100%	18	$ 3.437
75% to 99.9%	9	4.851
50% to 74.9%	20	28.279
35% to 49%	25	15.605
Under 35%	28	10.269
	100	$62.441
Excess of distribution over net profit	4	.828
	104	$61.613

It will be observed that 47% of the sample in 1941 retained income equal to 50% or more of their 1941 net profits and that 72% of the companies retained amounts of 35% or more. Eighteen companies failed to declare any dividends.'

As the aggregate 1941 net profits of the 104 companies were $160,521,000 (Table V) in the aggregate, 38% of 1941 income was not distributed to shareholders.

TODAY'S BUSINESS

The Control of Prices and Wages in Canada

By John W. Love

Editor's Note: Seeing the operation of Canada's price control system through the eyes of an economist and brilliant business commentator of the United States. That is what we bring to our readers this month in the observations of John W. Love. At the beginning of his career, young Love was refused a newspaper job by the Cleveland *Plain Dealer* but later won the position by an exceptionally meritorious free lance contribution. The *Plain Dealer*, by the way, is a publication about which Winston Churchill on one of his lecture tours in the United States remarked, "I think by all odds the *Plain Dealer* has the best newspaper name of any in the world." In 1930 Mr. Love was retained by *The Cleveland Press* and other Scripps-Howard papers and the following articles were written for their readers to aid them in comparing Canada's "tight" (as opposed to the New Deal "buoyant") economy when similar measures were enacted in the larger economy of the United States. The first two sections of these articles were written from Toronto, the others from Ottawa.—A.H.C.

I.

CANADIANS are happy to know the United States is going in for general price control, both because of its implied endorsement of Canada's great experiment (after long skepticism) and its promise to ease Canadian difficulties a great deal.

The neighbour to the south has already put a ceiling on the things that Canada buys there, and this is expected to stop much of the growth of the subsidies Canada has been paying its importers for price stability. If England would do the same thing now, Canadians would be even happier.

General price control is still an experiment in Canada and had yet to meet its most severe test, that of the oncoming shortage of consumer goods. So involved are the problems of shortage that some of the price administrators are not yet sure how long prices can be kept stable here. An increasing number begin to think rationing is not far away, but they would ilke to see the United States tackle that one first.

Closely Linked to Business Men

Although policies are made in Ottawa, price control Toronto officers are usually consulted and Toronto business men have a large share in the direction of the program.

To a considerably greater degree than in the United

States, business and industrial men carry the official responsibilities of price control. Both in policy and in administration, as in so many other Canadian affairs, the program is linked more closely with the business community than it is south of the border.

Price control wouldn't work anyway if the public didn't support it almost 100 per cent. No organized opposition has appeared in the five months of the plan's operations, and no prosecutions have taken place in the Toronto administration region save for violations of restrictions on tires, gasoline, sugar and rents.

Business Cost Not Raised

Diligent inquiry in Toronto fails to turn up any opinion that Canada's system of price control has particularly increased the costs of running a retail business. Many of the smaller merchants have more paper work to do, but an officer of one of the larger department stores said the system had relieved his company of so much other work as to amount to a net saving of effort.

There are two large price control offices in the retail field here, one national and the other regional, and the regional one handles the enforcement. This latter looks after a territory stretching 200 miles along lakes Ontario and Erie and containing 2,000,000 people.

Complaints of price violations are steadily increasing and are now coming in at the rate of about 200 a week. They are expected to go on increasing, partly because the public is becoming more acquainted with the program but mainly because more goods will be harder to get.

Canadians suspect restaurants were omitted from retail price control in the United States because of the trouble of proving violations. Few customers remember what they paid for meals in the base period months ago, not to mention what they ate then, and the opportunity for substituting such things as cole slaw is almost without limit.

II.

One thing is pretty clear in Canada by now, and that is the retailer will have to carry the canoe over the steep portages. The manufacturer and wholesaler will have a good deal of duffle on their shoulders, of course, but the retailer can't escape the heaviest loads.

This is because the increases in prices have been originating on the raw material and processing end of the stream of goods and the merchants did not take them all into account, either in the Dominion or the States.

Retailers Bear the Brunt

Here they have been able to roll some of them back on the distributors and producers, by negotiation, but so far they have had to bear most of the brunt of cutting down on service to customers, meeting the customers' suspicions of higher price or poorer quality, trying to lower a sometimes irreducible overhead and worrying over whether they can replace their stocks. They have had to go farther than their American colleagues in reducing deliveries and such favours.

A good many retailers will have to pass out in Canada, it is quietly admitted in official quarters. Some manufacturers will quit, but where theirs is an essential business, they can get subsidies. Here even the retailers of essentials will have to be winnowed, because the costs of distribution are higher than this not-very-rich country can stand in a war. Some of them will have to go to work for the more efficient, taking the places of clerks who are conscripted.

Just how the thinning of the retail ranks will take place is not at all clear yet. The careless may be caught in violations and closed up, some will fail because the economies they are forced to install are too severe, but most of the casualties are expected to occur when merchants are sold out and can't replace their stocks.

Wholesalers' "Plan" Is Out

If the decimation were left to the wholesalers, they would drop the customers of poor credit first, but Donald Gordon's wartime prices and trade board (equivalent of Leon Henderson's Office of Price Administration) requires them to maintain the same terms they formerly did. They cannot spring new rules for selecting their customers.

Another thing Canada's price explorers have found out is that if the government wanted to bully big business, especially big business in retailing, it could very easily do so. I am told every department and chain store violates the order innumerable times, apparently because of the large number of employees and transactions, the newness of many

of the clerks and the opportunity for mechanical and other slipups.

If Dominion experience is a guide, the beef industry will be very hard to control. The plaster has mostly fallen off the beef ceiling here. Variations of quality and price were too numerous to be overcome. Packers just wouldn't sell the same things for the same prices.

The order on beef prices in the Dominion still stands, but it is broad and general and hundreds of dealers are suspected of chiseling. Very careful policing of the meat trade will be needed if that end of the regulation is to succeed to Washington's satisfaction.

III.

Canadians who have the exacting job of holding prices stable are mingling admiration and doubt of the system the United States adopted recently.

If they were shaping their own scheme over again the Wartime Prices and Trade Board would include Leon Henderson's order to the merchants to post the prices of a series of "cost of living" commodities. Some of the officers in Toronto believe the idea came from Canada's experience. The proposal had even been considered here to confine price control to these essential goods.

50x3500 Mile Ribbon

As for Canadian doubts of the American program, they range from surprise that wages were not included in the price-control system itself, to sympathy for Mr. Henderson's organization when it tackles the questions raised by seasonal merchandise in a country so large as the United States. Canadians live on a ribbon 3500 miles long and 50 miles wide, and all have the same season at once. This greatly helps in regulating them.

Canada Regulates Wages

In promising at the outset of the undertaking last November that the cost of living would be controlled, Canadians gave wage regulation a central place. "The cost of living," Prime Minister Mackenzie King told the nation, "cannot be controlled unless wages are also stabilized." More than once the need has been pointed out in Canada for uniting control of wages with the control of prices in the

same office. There can be no conflicting jurisdictions.

The range of Canadian management of prices is broader in some respects than the American and narrow in others. Donald Gordon's Wartime Prices and Trade Board looks after prices of newspapers, advertising, Canadian books and magazines, movie admissions, flour, eggs and poultry, butter and cheese and tobacco—all excluded in the American plan. Here the list of controlled services is much shorter, and the laundries and dry cleaners are already giving trouble.

Mobilizing the Shoppers

Miss Byrne Hope Sanders heads the consumer branch of the price board. She and regional co-ordinators are enlisting the help of every women's club in the Dominion, with a total membership of perhaps 1,500,000.

Club members are to watch prices and report increases. They are getting blue blank books, entitled "My Price Ceiling Record," and carrying a picture of the queen against a maple leaf. Between 5,000 and 10,000 "liaison" members will see to the transmission of price information back to the authorities and other kinds of information to the club members, including all sorts of suggestions for better utilization of scarce commodities.

A few changes have had to be made in Canada's inflation controls because of the needs of remote parts of the country. It was soon discovered that if the regulations on installment buying were enforced as they were written, thousands of trappers, fishermen and prospectors would be out of grub.

IV.

It is plain here that Canada's methods of general price control are not the unqualified success some Americans have said they were, but it is also clear that once the plan was set in motion it could not be given up. It could only be intensified.

The United States system is patterned on Canada's in many details. The lesson is that when shortcomings develop they must be overcome by main strength and awkwardness when subtler methods fail.

The triumph of the Canadian plan is revealed in the cost-of-living charts—the indexes had been rising last year alongside two other upward-sloping lines, one of them the

Canadian cost of living in the last war, the other the American cost of living in this war. The Canadian line has been horizontal since 1st December.

The awkwardness of the system is shown in several ways, but Canadians don't see how they can be avoided, nor avoided in the U.S. if Leon Henderson's underwriting of the cost of living is to be met as rigorously as Donald Gordon's in Canada's.

Subsidy for H. C. L. Ceiling

Rises in costs are inescapable, and to keep these from showing up as rises in prices, the Dominion government has to compensate for them by paying subsidies, or prevent them by forcing simplifications and standardizations.

The Canadian government has paid out over $2,100,000 in subsidies, and perhaps $4,000,000 more have accrued.

Most of the amount paid out thus far has been for the extra costs of milk in winter, which have now been cut off. Another large chunk, $584,000, has gone for shoes, but the shoe companies are now required to make shoes more economically by cutting down the number of styles. There have been and will be unavoidable payments for imports of cotton, rice and American citrus fruits and juices.

It is suggested here that trade between Canada and the United States may now be regulated so as to avoid a net subsidy in either direction, but that the United States may find itself paying subsidies for certain imports from other countries, just as Canada subsidizes imports of British porcelain.

Canada is about to pay subsidies for the extra freight costs of bringing goods by rail from Gulf ports in the United States, instead of through Montreal, and Canadians mention the prospect of American subsidies on gasoline shipped by tank cars.

Cutting Out the "Frills"

Canadians are moving with great energy to cut out the "frills" in distribution as well as to simplify products. One of the frills, so called, is cross-hauling of similar products, and zoning of distribution has started nationally in roofing and is to be undertaken locally in milk.

Unsolved, so far, is the problem in a noticeable drift of Canadian goods to the higher-priced varieties and the

practical disappearance of a few of the lower-priced from retail counters. This trend in the recent and still prevailing "buying spree" has resulted in part from the preference of consumers for better goods, now that they have more money to spend, but it is also the effect of manufacturers and dealers finding they can keep on making the same money with a diminishing supply of materials if they go over to the higher-priced lines with the wider profit margins.

The price board insists the same range of variety of goods be maintained—it will tolerate no "rich men's markets." It expressly prefers to sacrifice the higher-priced goods. But even within its staff there are doubts whether the same breadth of choices can be maintained on the lower end.

The visitor soon discovers the conflict here between "gradualism," which would exempt some of the semi-luxuries from standardization and even price control, and the willingness to force manufacturers with diminishing quantities of materials to preserve certain price tags at any cost in style uniformity. This conflict is especially noticeable in the apparel lines. The gradualists say too sudden a shift would leave many goods unsold.

Enthusiasts for standardization say it could have the practical effect of rationing. If goods were obviously made standard, like the civilian uniforms now coming into vogue in England, people would not buy any more than the minimum quantities because they might have them left on their hands when the war ended.

V.

Like her general system of price control, Canada's man-power plan was out ahead of that of the United States, but the Dominion has had only five weeks' experience running it.

These five weeks have been long enough for the programme to have had some results in cutting down the turnover of workers between industries, or so it is believed in the offices of the National Selective Service. Latest figures show about 500 men a week, out of the 11,600,000 population of Canada, are asking for permits to change jobs.

Canada's Heavy Turnover of Labour

Though the movement of men from job to job has

already slowed down in Canada, it has not yet been reduced enough, according to Humphrey Mitchell, Canadian Minister of Labour. In a recent speech he forecast some further steps. Though he did not suggest what these were to be, the refusal of permits to go into non-essential jobs would have some of the desired result. Most or nearly all the applications for permits have been granted thus far, even for the non-essential industries, but these permits are only good for three months.

Farming is the occupation which has felt the heaviest hand of restriction on labour mobility. Because England is relying so heavily upon Canadian food supplies and because so many farmers have flocked to the new industrial plants, the shortage of farm labour is even more severe in Canada than in the United States.

Maybe No Draft of Labour—Ever

Canadians do not expect to draft labour for war industries for months to come, and there are those who believe an actual draft will never be necessary. By closing certain gates or valves, the flow of workers can be kept in one direction only, into the essential plants.

There is no way of knowing, of course, whether war industries will run out of men before non-war industries run out of materials, and thus release the men, but the question whether any actual conscription of labour will ever be needed is the same one which has been raised south of the border.

The Canadian plan of defining non-essential employment could readily be copied in the United States. Two lists are used. One consists of "restricted" occupations and the other of "restricted" lines of business. In the first are 21 categories of industry, ranging from baking through printing and publishing to toy making. In the second list are a large number of office, hotel, store and repair jobs.

Canada's employable jobless still number about 100,000, but in Toronto and Ottawa they are about all taken up. If the jobless in the United States were proportionately reduced, they would not exceed 1,200,000.

VI.

The city of spires on the rocky eminence above the swift-running Ottawa River has always had the world's grandest

setting for a national capital, and the war has in no way reduced its stateliness.

On my fourth visit to the capital of Canada since the war began I noticed still more of the new frame buildings for offices, but Ottawa has better luck with architecture than Washington. The latest buildings are almost classical in their square columns. With a little more effort around their eaves they would resemble Ohio's earliest public buildings, those of the Greek revival a century ago.

As the population of the Dominion is about that of New York State, so the city of Ottawa is the size of Albany, and the war offices are about as large as they would be if New York State were fighting Germany and Japan as one of the United Nations.

Canada's Simpler Story

After having circulated pretty freely in Washington over the last couple of years I was perhaps most startled in Ottawa by the small sizes of the files in the four or five public relations offices. The entire collected works of the price administration's publicity men, for example, are contained in one drawer of a filing cabinet.

This seemed to me another evidence of the small size of the country, and I reflected that Washington's releases on prices would probably fill 12 drawers. On second thought, I remembered Canada's system of price control is about one twelfth as complicated as Washington's has been up to now, with the latter's ramifying system of separate ceilings. The United States ceilings finally ran out of the window, so to speak, and the United States had to go over to the Canadian plan.

Brevity has been the soul of the Canadian statements thus far, but the men sometimes wonder if the statement on the man power plan wasn't a little too brief. The word got around, incorrectly, that labour was to be "frozen," and to be frozen in has a special meaning for Canadians. Scores of men in the far north, on construction and similar jobs, were packing up to go back to the settlements and fuller explanations had to be issued. They thought they would have to spend their winters up there.

Specialized War Industry in Canada

In one very important respect the Canadian armament

program has differed markedly from that of the larger neighbour to the south, and that has had its effects on most of the detail of government reporting.

With scarcely a tenth of the industrial development of the United States, Canadians have specialized to a much greater extent. There was no sense in their attempting to produce the whole range of weapons. They accordingly fitted their facilities into those of England—after the British were fully willing to let them do so, and into those of the United States.

The breadth of Canada's industrial participation constantly increases. Nine types of guns and eleven types of carriages or mountings are now turned out in Canada. Units lately going into production include a new type of 4-inch naval gun, a 12-pounder naval gun, a 6-pounder anti-tank gun and mounting, a 2-inch bomb thrower, the Sten machine carbine and the Boys anti-tank rifle. For some time Canadian plants have been turning out a 25-pounder artillery gun and carriage, two types of tank and anti-tank guns and carriages, 40-millimeter anti-aircraft guns and mountings, and several types of small arms. Other weapons are under development.

THE EXCESS PROFITS TAX ACT

Minister of Finance Explains in Parliament the Effect of 1942 Amendments

In the House of Commons on 14th July last the following discussions took place on the amendments to *The Excess Profits Tax Act* proposed by the Minister of Finance in his Budget address of 23rd June. The proposed amendments were:

Resolved, that it is expedient to introduce a measure to amend *The Excess Profits Tax Act, 1940*, and to provide—

1. That the rates of tax as set out in the second schedule to the said act be repealed and the following substituted therefor:

First part—

Ten per centum of the profits of corporations and joint stock companies and 15 per centum of the profits of all persons other than corporations, before deduction therefrom of any tax paid thereon under the Income War Tax Act.

Second part—

One hundred per centum of the excess profits.

Third part—

Twelve per centum of profits of corporations and joint stock companies before deduction therefrom of any tax paid thereon under the *Income War Tax Act.*

A MEMBER: This is a very difficult, technical taxation measure. The whole question of excess profits is difficult enough, and I confess that from the Minister's statement in the budget I was not able to understand all that he was driving at, in two particulars: first, the changes in the base of the E.P.T., as it is called, and second, the question of the refundable portion, to be found in resolution 5. Would the Minister please state just what the present position is up to the point where he leaps from 75 per cent to 100 per cent of the excess profits, and then what the change is? There has been a change on the way up, I think.

Mr. ILSLEY (Minister of Finance): The present rate structure of *The Excess Profits Tax Act* provides for either (a) a tax of 22 per cent on total profits, or (b) a tax of 75 per cent on excess profits, whichever is the greater. Under this rate structure it works out that the 75 per cent tax on excess profits is the greater of the two taxes when profits have increased by slightly more than 56 per cent of standard profits. All companies paid at least 40 per cent tax on total profits; that is, 18 per cent under the income tax, and 22 per cent under *The Excess Profits Tax Act.*

A MEMBER: Under two parts. Is it not in two bites?

Mr. ILSLEY: Yes. The 18 per cent was under the *Income War Tax Act,* and the 22 per cent was under *The Excess Profits Tax Act.*

A MEMBER: The 10 per cent under the first part and the 12 per cent under the third?

Mr. ILSLEY: No; I am talking about the old Act.

If, however, profits were more than 156 per cent of the standard—the correct figure is 156.7—then the effective rate of tax on additional profits amounted to 79.5 per cent. Under the new rate structure the 22 per cent has been broken down into a tax of 12 per cent, which applies to total profits in all cases, while the remaining 10 per cent constitutes the tax which is the alternative to the tax on excess profits which was previously 75 per cent but which now becomes 100 per cent.

I have stated that the alternative taxes under the present

set-up are equal when a company's profits have increased by just over 56 per cent. Under the proposed rates the alternative taxes are equal when profits have increased by only 16⅔ per cent. It is obvious then that the proposed changes in the rate structure bring into effect the high rate on excess profits at a much lower point than is done in the present law.

To sum up the proposal, I may say that all corporate profits will be taxed at least 40 per cent; and when profits are increased more than 16⅔ of standard profits, the whole of this excess is taken under the 100 per cent rate, with the 20 per cent refund provision provided for in resolution 4.

In the case of taxpayers other than corporations the 15 per cent flat rate tax remains unaltered as the alternative to the new rate of 100 per cent on excess profits.

A MEMBER: I was going on to ask the Minister if he would give a concrete illustration such as I received today from one of the officers of the department, we will say based on a tax on $17,000, which happens to be the figure given, and spread it on the record in tabulated form: first, under the old system; second, under the proposed system, which would show exactly how much tax there would be under the old system, and how the tax was made up in the new system and what it will be. It seems to me that that would be valuable to everyone.

Mr. ILSLEY: I will explain in my own words the change that has been made. It is a very technical matter and, if I make a mistake in the course of the explanation, I shall have to correct it tomorrow. I do not think, however, that I shall make a mistake because I am fairly familiar with the legislation from the beginning.

First, let me tell the committee the rule that is applied in ascertaining the taxes payable under *The Excess Profits Tax Act* now before it is amended. There is an 18 per cent tax under the *Income War Tax Act.* That is the first thing to remember. Then there is the excess profits tax. Profits are taxed at 75 per cent, and there is a provision that the amount in any event shall not be less than 22 per cent of the total profits. That is to say, you must determine whether 75 per cent of the excess, after deduction of the 18 per cent income tax on the excess, is greater than 22

per cent on the total profits. If it is greater, then one takes the 75 per cent on the excess, which means 79½ per cent on the excess if the 18 per cent income tax is first taken into account. The result is that every company must pay at least 40 per cent on its total profits—18 per cent under the *Income War Tax Act* and 22 per cent under *The Excess Profits Tax Act*—and some companies will pay more than that. If their excess profits are so large that this 79½ per cent on the excess is greater than the 22 per cent on the total profits, then they will pay 79½ per cent on the excess. One could imagine a company where the two would be exactly equal, and as a matter of fact a company which earns in the taxation year 156.7 per cent of its standard profits would pay exactly the same under both rules.

That is the point at which the two rules bring the same result; 79½ per cent of the excess is equal to 22 per cent of the total profits. So that in practice a very simple rule is applied. One just finds out what the percentage of the company's profits is of its standard profits. If its profits are anything up to 156.7 per cent of its standard profits, one just takes 40 per cent of the profits and that is the tax; that is the combined tax, income and excess profits tax. But if its profits are more than 156.7 per cent of the standard profits, one has to take 40 per cent of the 156.7 per cent and 79½ per cent on the remainder over that. That is a simple rule which is applied under the present system to the working out of the taxation on companies. That 156.7, in the minds of chartered accountants, lawyers, income tax officials, and finance department officials, is a well known point; it is the breaking point, the critical point. It is an important figure. Now we have come along and changed our Act so that instead of there being an 18 per cent flat rate on all profits, there is now a 30 per cent rate on all profits, which is described in the budget speech as 18 per cent income tax and 12 per cent excess profits tax. But whatever it is called, it is a 30 per cent rate.

A MEMBER: That is the total in any event.

Mr. ILSLEY: Yes.

A MEMBER: Does that apply to anything under $5,000?

Mr. ILSLEY: Yes; according to the resolutions it does. With regard to the option, instead of 22 per cent of the total, or 79½ per cent of the excess, whichever is greater, now

it is 10 per cent of the total or 100 per cent of the excess, whichever is greater. So that now every company pays at least 40 per cent of its profits, but it may pay more. For the purposes of the record I will stop there. The rates are now such that the breaking point, instead of being 156.7 is 116.666, and, therefore the simple rule to apply to the computation of the new excess profits tax is to reckon 40 per cent if the company earns less than 116.6 per cent of its standard profits. The simple rule is to take 40 per cent of total profits; but if it earns more than that, one takes 40 per cent up to 116.6 and 100 per cent if it is over, and of the 100 per cent 20 per cent is returnable. That 20 per cent does not apply to excess over standard profits but excess over 116.6 per cent.

A MEMBER: Twenty per cent of that and that alone.

Mr. ILSLEY: Twenty per cent of that and that alone. I have seen some recapitulations of this in business papers and, as usual, there is some misunderstanding. I am not surprised, but there is a misunderstanding. It seems to be thought that 20 per cent of the excess over 100 per cent is returnable. It is only 20 per cent of the excess over 116.66 per cent.

That is a brief explanation of the new measure, and the best I can give. It will be seen that since 40 per cent of any profits are taken and 100 per cent over 116.66 per cent, the most any company has left is 70 per cent of its standard profits, because 40 per cent of 116.6 is 46.6, which, substracted from 116.6, leaves 70. So that the most any company can have left available for dividends under this measure is 70 per cent of its standard profits. It may have in addition a credit with the government of the 20 per cent excess. If it earns more than 116.6 per cent of its standard profits, it will have to its credit 20 per cent of the excess over 116.6.

A MEMBER: If the Minister could put on the record something such as I have here from the department, it would be of great value. That is, certain examples of corporations and of individuals. It must be understood that the Minister has been talking about corporations, and there has been an increase in the tax on small corporations; or rather the exemption that small corporations had hereto-

fore has been wiped out to a degree if not altogether. Is that not true?

Mr. ILSLEY: The small corporation has been paying 18 per cent. Hereafter it is proposed that the small corporation shall pay 30 per cent. I might tell the committee the background in my mind of that change. The small corporation, that is the one having less than $5,000 income, before the Dominion-provincial agreements, in British Columbia, for example, was paying 28 per cent; that is, 18 per cent to the Dominion and 10 per cent to the province. In Ontario it was paying 23 per cent; that is, 18 per cent to the Dominion and 5 per cent to the province; in Quebec, 23 per cent, being 18 per cent to the Dominion and 5 per cent to the province. Then we entered into the agreements, and we wiped out the provincial corporation tax on the income of 1941 and did not put on any tax in its place. Therefore the small corporation last year had a favoured position as compared with the position it enjoyed in the past.

A MEMBER: However, the amount of money involved would not be very large.

Mr. ILSLEY: Well, I do not know; I did not make a computation. But it becomes a matter of judgment as to what tax should be imposed on the small corporation. On the one hand it is in competition with the proprietorship which pays an excess profits tax of 15 per cent; that is the minimum for the proprietorship. On the other hand it is in competition with the corporation which earns a little more than $5,000, to which corporation the rates I have been talking about apply, a minimum of 40 per cent. It is anybody's judgment whether the rate on the small corporation should be 25 per cent or 30 per cent or any intermediate figure or any figure near there. I do not see why 30 per cent is not as near a just tax on the small corporation as anything else. They may think they are unjustly taxed as compared with the unincorporated company, but they enjoy certain advantages in being incorporated, and also they are advantageously treated as compared with the slightly larger company which pays a minimum of 40 per cent.

A MEMBER: The Minister means they have been advantageously treated?

Mr. ILSLEY: No; they will be in the future, because a

company having more than $5,000 profits is taxable at a minimum of 40 per cent now, and under the new legislation there has been no change in that 40 per cent minimum. But the company with $5,000 profit or less will pay a minimum of 30 per cent. There is nothing about 40 per cent in regard to that company.

The following table has been prepared by a member of the editorial staff of THE CANADIAN CHARTERED ACCOUNTANT:

INCOME AND EXCESS PROFITS TAXES

Corporation Taxes Under 1942 Budget Proposals

Compared With the Present Rates

	Example 1	Example 2	Example 3	Example 4	Example 5
Taxable income	$110,000	$116,667	$140,000	$155,696	$180,000
Standard profits	100,000	100,000	100,000	100,000	100,000
Excess profits	$ 10,000	$ 16,667	$ 40,000	$ 55,696	$ 80,000
Taxes at present rates—					
18% income tax	$ 19,800	$ 21,000	$ 25,200	$ 28,025	$ 32,400
Excess profits tax being the greater of 22% of taxable income	24,200	25,667	30,800	*34,253*	*39,600*
or 61.5% of excess profits	*6,150*	*10,250*	*24,600*	34,253	49,200
Tax payable	$ 44,000	$ 46,667	$ 56,000	$ 62,278	$ 81,600
Taxes at proposed rates—					
18% income tax	$ 19,800	$ 21,000	$ 25,200	$ 28,025	$ 32,400
Excess profits tax 12% tax	13,200	14,000	16,800	18,684	21,600
The greater of 10% of taxable income	11,000	*11,667*	*14,000*	*15,570*	*18,000*
or 70% of excess profits (100% — 30%)	*7,000*	11,667	28,000	38,987	56,000
Tax payable	$ 44,000	$ 46,667	$ 70,000	$ 85,696	$110,000
Refundable portion— 20% of income in excess of 116-2/3% of standard profit	—	—	4,667	7,806	12,667
Net tax	$ 44,000	$ 46,667	$ 65,333	$ 77,890	$ 97,333

It is proposed that new rates are to be effective from 1st July 1942.
Figures in italics not applicable.

OVERHEADS AND DIFFERENTIAL COSTS

By F. Bradshaw Makin, F.C.I.S., F.R.Econ.S.,
London, England

FOR some years past accountants in Great Britain have been devoting considerable thought to the problems arising out of the existence of overhead costs and in particular quite a number have attempted to portray the differential cost of increased production. Most business executives are well aware that an increase in output can be obtained without a corresponding increase in certain elements of total cost, and also that this fact permits them either to sell the whole of their output at a lower price per unit, or to dispose of the increase at a still lower rate per unit, whilst maintaining the old price on the pre-existing volume. Before any manufacturer, however, can assess the effect on his profits of increased turnover, he must have clear and definite information respecting the changes that are brought about in the main divisions of total cost. Unless this data can be readily available it is almost impossible to discover in advance the differential cost of any increase in output.

Any accountant therefore who desires to be of the greatest service to his company must go further than merely allocating costs to departments, sections, processes, etc. If he is sufficiently alive to the overhead problem he will undertake the preparation of an analysis designed to show the differential cost of added output at varying production levels. To do this he must develop what might be termed a statistical outlook and portray in accounting and statistical form the changes in individual and total cost resultant on a change in the volume of production. An analysis of this kind is indispensable if one is to know how the semi-variable and constant costs behave towards increases or decreases in production. Such an analysis may be a relatively simple matter or a very complicated and involved procedure, depending on the type of business undertaken and the range and diversity of the products manufactured. Difficulties will be met but they can be overcome, and in trades using single, process, or unit costs, no particular obstacle should arise in preparing the analysis which may be referred to as a "productive level cost analysis."

In any event it is always advisable to analyze costs as

completely as possible for only by so doing can the full weight of the overhead burden be calculated and to some extent controlled. Cost is of course definitely related to output and every accountant should realize that the cost of a commodity is a function of output volume; therefore it is impossible to state the cost of one unit of production without taking into consideration the total volume of production of which the particular unit forms a part. Furthermore, the total cost of a product is made up of a number of individual but related costs with differing responses to production changes; also cost behaviour is quite different during a period of increasing as compared with decreasing production.

Consider for a moment the effect of output changes on the three main cost divisions, viz., variable, semi-variable and constant. The charges in the variable group will be found to vary according to output change be it increase or decrease. There is, however, a tendency for the variation to be less marked when output is falling, though this is not very material. The semi-variable charges will vary with increased production but at a constantly reduced rate. A production increase of 20% may only increase the semi-variable charges by 18%, and a 40% increase by some 34%. When production is falling, however, the behaviour of these charges is quite different, and it would probably be found that a 20% fall in production would reduce the charge to the extent of 14% only. The constant costs would remain the same whether output rose or fell, though naturally the constant costs would have to be increased if the output rose above the economic capacity.

The question of capacity brings us to a consideration of the nature of any production change, i.e., to observe that the response of costs to a short-term increase is quite different from that of the response to a long-term increase. A short-term increase is usually within the productive capacity of the existing equipment and labour personnel and can thus be handled without any addition to the existing cost ratio, whereas a long-term increase cannot be met without creating some permanent increase in certain elements of total cost. When an increased output is within the existing capacity the only costs showing any increase are the direct and semi-variable. When the increase is such that it cannot be brought within the limits of existing

capacity, then additional equipment, etc., is required and so the constant costs become permanently increased and the whole costing basis requires review. The most remunerative form of production increase occurs when there is in existence unused capacity and any increase in output up to the full limit of that capacity has the effect of reducing the average unit cost of the whole output. On the other hand, an increase in production over and above latent capacity limits will tend to increase the unit cost of output. Theoretically an increase in output above capacity should result in a reduced unit cost and in practice quite frequently does for a short period. The short period, however, is usually very short, for excess capacity working causes overtime and overloading of equipment and plant, eventually leading to an increase in equipment, which thus creates fresh unused capacity and so increases cost. It is in cases similar to the one outlined that one hears the rather absurd statement that "the constant costs have increased."

In view of the foregoing facts, that cost is clearly related to output, a complete productive level cost analysis appears to be indispensable if one wishes to have full information on how costs respond to changes in the volume of production. It is when considering the effect on costs of production changes that the analysis is of material service, for without it, it becomes almost impossible to state what will be the effect of a change in production or an alteration in selling price.

An illustration of a productive level cost analysis is shown on the next page. It will be observed that this analysis shows the cost of:

1. Raw materials
2. Direct labour
3. Indirect expenses for factory, administration, distribution and selling
4. Overhead costs for factory, administration, distribution and selling

at four different output levels from 70% to full capacity. In addition the unit cost of each item is clearly shown, also the profit per unit. A summary showing the unit costs under the headings of materials and wages, indirect costs and overheads is also given. In actual practice the analysis would commence at about 30% ouput, that is on a loss basis,

and would be continued at 5% or 10% intervals up to a full capacity of 100%.

Taking the analysis as a commencing point it is possible to prepare a statement of future results as shown below. Assuming that 70% is considered the normal output it is interesting to observe the effect on total cost of an increase in output to 90%.

		$	*per unit*
Reductions in raw material cost			.03
Direct wages			.03
Indirect expenses—	Factory	.03	
	Administration	.04	.07
Overhead costs—	Factory	.12	
	Administration	.17	
	Distribution	.03	
	Selling	.28	.60
Total unit cost reduction			.73

As will be observed the major portion of the reduction in cost accrues through spreading the overhead over a larger volume of production, for out of a total saving of 73 cents per unit, 60 are obtained from the overhead charges alone. If a 90% output basis is maintained the annual net profit rises from $54,160 to $95,828, or on a unit basis from $1.94 to $2.67.

The main advantages of an analysis similar to the one illustrated are that:

1. Attention is very forcibly directed to the anticipated profit figure

2. The estimated expenses can be watched and controlled. As no question of price level changes has been considered, it can be said (always assuming that an increase to 90% is based on sound premises) that as an outlay of $740,864 is the amount required to give an income of $836,692, it is by close attention to the expenses making up the former figure that the estimated profit can be safeguarded. In other words, a certain sum by way of income is expected, out of which an amount must be set aside for profit, leaving a residual amount which should be sufficient to cover all costs of every description. By strict control of the costs the anticipated profit can be made into an actuality. A monthly analysis of all costs should be made and compared and any increase over the quota figure investigated immediately.

TABLE No. 1

Productive Level Cost Analysis in $
(showing also cost per unit)

Units of output and %	Raw material	Direct wages	Indirect expenses				Overhead costs				Total cost	Production	Profit
			Factory	Administration	Distribution	Selling	Factory	Administration	Distribution	Selling			
28,000 70%	346,732 12.38	27,812 1.00	17,732 .63	22,864 .81	58,800 2.10	49,000 1.75	13,860 .50	21,340 .76	4,040 .14	34,420 1.23	596,600 21.30	650,760 23.24	54,160 1.94
32,000 80%	395,200 12.35	30,936 .99	19,732 .61	25,600 .80	67,200 2.10	56,000 1.75	13,860 .43	21,340 .66	4,040 .12	34,420 1.07	668,328 20.88	743,728 23.24	75,400 2.36
36,000 90%	444,600 12.35	34,804 .97	21,600 .60	27,600 .77	75,600 2.10	63,000 1.75	13,860 .38	21,340 .59	4,040 .11	34,420 .95	740,864 20.57	836,692 23.24	95,828 2.67
40,000 100%	494,000 12.35	38,672 .97	23,332 .58	29,332 .73	84,000 2.10	70,000 1.75	13,860 .35	21,340 .53	4,040 .10	34,420 .86	812,996 20.32	929,676 23.24	116,680 2.92

Summary of Unit Costs

	Material and wages	Indirect costs	Overhead costs	Total	Profit
70% output	13.38	5.29	2.63	21.30	1.94
80% output	13.34	5.26	2.28	20.88	2.36
90% output	13.32	5.22	2.03	20.57	2.67
100% output	13.32	5.16	1.84	20.32	2.92

Differential Costs

So far we have been considering the effect on cost of an increase in production giving an all-round unit cost reduction. We must now give some attention to the differential cost of added production. The important feature of differential cost is that this particular cost is lowest when unused capacity is greatest; therefore every increase in production will, in most cases, increase the differential cost of the additional output. In theory the above should always occur but in actual practice other economies resultant on increased output often have the effect of causing a fall in the differential cost, though this is by no means certain.

In Table No. 2 the differential cost of an increased output from 70% to 100% is made clear. If the schedule had been extended to show the result when over-capacity working was in being and output rose to, say, 115%, then a very different result would have been shown for the final figure. In all probability it would be found that the cost per unit had risen above the $20.32 line and that the unit cost of the extra 15% output (i.e., the differential cost of the 15%) had risen to a figure higher than the total average cost.

TABLE No. 2

Differential Cost Schedule in $

Units and %	Total cost	Cost per unit	Total cost of added output	Differential cost per unit of added output
28,000 70%	596,600	21.30		
32,000 80%	668,328	20.88	71,728	17.93
36,000 90%	740,864	20.57	72,536	18.13
40,000 100%	812,996	20.32	72,132	18.03

Differential costing is frequently used when it is desired to sell part of the output abroad at a specially attractive price or in a home market geographically uncompetitive. Assume that a concern is working to 70% capacity

or 28,000 units, and it discovers that provided an attractive price can be quoted, a further 8,000 units can be sold in a distant market. As the existing output of 28,000 units can be disposed of as at present without disturbing the price, the question then is, "to what extent can the price of the extra 8,000 units be cut?" Differential costing supplies the answer as in the following:

	28,000 units	*36,000 units*
Total cost	$596,600	$740,864
Cost per unit	21.30	20.57

The differential cost of the extra 8,000 units is therefore $144,264 or $18.03 per unit. Providing that the 28,000 units are sold at the existing price of $23.24 per unit, the additional 8,000 can be disposed of at $18.03 without giving either an increased or decreased profit:

28,000 @ $23.24 =	$650,760
8,000 @ $18.03 =	144,264
	795,024
Less total cost	740,864
	$ 54,160

which is the equivalent of the profit on a 70% output basis.

It should be quite clear then that if the extra units can be sold at a price in excess of their differential cost of $18.03 the concern will gain financially by producing and selling the extra units instead of merely maintaining the old 28,000 unit output. There does arise however the question of extra cost incurred solely on account of the 8,000 units, namely the cost of carriage or shipping to a more distant market. The indirect cost of distribution has been taken into account at $2.10 per unit, but as the distribution to a more distant market approximates, say, $3.60 per unit there must be added an extra $1.50 to the differential cost, giving a final cost of $19.53 which is, incidentally, $1.04 per unit less than the average unit cost on the combined output of 36,000 units. After providing for the extra distribution cost it is possible to sell the 8,000 units at $21.50 per unit which is $1.74 below the existing price, and show a profit of $1.97 on each of the 8,000 units. The final result is as tabulated below

Sales of 28,000 units @ $23.24		$650,760
Sales of 8,000 units @ $21.50		172,000
		822,760
Total cost of 36,000 units	740,864	
Extra distribution cost @ $1.50 on 8,000 units	12,000	752,864
Final profit		$ 69,896

or more simply:

28,000 units at a profit of $1.94	$ 54,160*
8,000 units differential profit of $1.97	15,736*
	$ 69,896

When dealing with the problem of overheads and differential cost one must always bear in mind that where increased output, resulting from unused capacity, does not add to existing overheads, there will always be a net gain to the producer if the added output is sold at more than differential cost, but only in so far as the pre-existing production is maintained unimpaired. This fact is of particular importance, for any reduction in the main output or product may have very serious consequences. A very stringent control over all expenditure is essential and especial care is necessary to ensure that the extra output does not bring about unwarranted additions to cost.

The foregoing remarks merely touch the fringe of the subject of differential costs, but it is felt that most accountants will agree that a wide field is open for investigation and one that will well repay serious study.

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*Owing to ignoring fractions of a cent there is a minor discrepancy in the total figure but as this is due to avoiding unwieldy calculations it in no way invalidates the principle.

GLIMPSES OF CURRENT ACCOUNTING LITERATURE

A Summary Prepared by John Douglas Campbell,
Chartered Accountant

BULLETINS

(1) Cost Accounting

BULLETIN No. 19, Volume XXIII, 1st June 1942, published by the National Association of Cost Accountants (New York) contains an article by George J. Armstrong on "Production Control in a Foundry." The topic although it has in this case a somewhat specialized application is of particular significance in that the general principles involved are without doubt applicable to the solution of problems arising in modern plants from the stepping up of production and the imposition of priorities.

The article, supported by illustrations of production time tickets and charts used, illustrates how one company solved its problems of co-ordinating the efforts required to obtain information for payroll, cost and production control purposes.

The central production scheduling office forms the nucleus of the planning department from which originates the master plan of production. The line of authority passes from this central office to the foundry superintendent, then to the foreman of the department and eventually to the workers under his guidance and supervision.

The production schedule is set up as far in advance as possible and is recorded on master Gantt style charts by the central production office. "These charts demonstrate whether or not all of the production that we know will be eventually required, can be produced on the facilities available." The information is transferred from the master production charts covering a two-period interval to planning boards which are maintained for each department in the central production scheduling office. From the planning boards production charts (Gantt) are prepared for a single period of production and sent to the department superintendent accompanied by the production time tickets for the jobs listed on the production chart. As the production indicated on the chart is completed the related production time tickets are routed through the production scheduling office and the results are recorded on the planning boards.

A visual check is thus provided departmentally as to whether production is ahead or behind schedule.

The department superintendent on receipt of the production chart and production time tickets for his department covering a definite period distributes the production time tickets for the various jobs using control boards. This distribution as to time and work locations is designated on his production chart.

Salary and Wage Evaluation—Bulletin No. 20, Volume XXIII, 15th June 1942, contains articles covering the general industrial problem of wage and salary evaluation. The articles are supplementary to each other including both the presentation of an overall picture of salary and wage administration and also its particular application in the form of a case study for a specific company.

Samuel L. H. Burk covers the general problem in an article "Salary and Wage Administration." The general subdivisions of the problem are first outlined followed by specific discussions of methods utilized in the determination of job differentials and the manner of arriving at a salary scale which could be applied to the job differential schedule developed.

Donald M. Magor outlines in an article "Job Evaluation for Salaried Positions" the actual procedures which were followed by one company in establishing job differentials through the application of a "point system" rating to certain basic factors and the fitting of the point ratings obtained for each job to money values. "Instead of depending upon a general personal opinion of the job as a whole, a salary evaluation plan incorporates the distinct advantage of requiring the appraising officers to examine and appraise the relative value of each part of the work and responsibility assigned to each job, and to award, therefore, its proper worth."

As salaries and wages form a basic factor in employer-employee relations management must in order to justify its salary and wage administration policies to its employees as well as its stockholders be aware of the facts underlying such administration policies.

ARTICLES

(1) Research in Inventories

Walter A. Staub in an article published in the April

1942 issue of *The Journal of Accountancy* (New York) on the topic of "Research in Inventories" discusses questions of inventory methods on the basis of an analysis made of replies obtained from sixteen representative accountants on the questions.

A short outline of the "over all" inventory question is followed by discussions of specific aspects supported in each case by an analysis of the replies received covering the questions under consideration. The following questions are dealt with in detail: Are present practices in inventory valuation satisfactory? What is the significance of conservatism in inventory valuation? What is the basic principle? What is cost? What is market? What exceptions, if any, should there be made to the general rule? What is meant by net realization? What procedure should be followed in writing down inventories? How should recoveries be treated after write downs have been made? What treatment should be accorded supplies inventories? What justification exists for valuation of inventories at net selling value? How should overhead be treated? How should market declines after the date of the balance sheet be treated? What significance should be placed on commitments made at prices in excess of current market?

The study made by the research department confirms the existence of a lack of clear understanding of the term "cost or market whichever is lower" and its implications. In discussing the question of the basic principle, the statement is made "that accountants generally have recognized that the rule of cost or market, whichever is lower, is not based on logical grounds but that it is a counsel of prudence or conservatism."

(2) Surplus—Terminology

The May 1942 issue of *The Journal of Accountancy* (New York) carries a report of a subcommittee on accounting procedure of the American Institute of Accountants respecting the term "surplus."

The problem considered is the advisability of eliminating the term "surplus" from the balance sheet on the grounds that although surplus connotes the legal concept of value, it does not portray the accounting concept of investment.

The proposals made by the subcommittee are: (1) the description as "net corporate investment" of what is now

sometimes called "net worth," "proprietorship," or "stockholder's equity;" (2) the inclusion of all amounts paid in by stockholders which have not been refunded to them as capital, under the heading "contributed capital" instead of showing as a subdivision of surplus the net amount so contributed which is or was in excess of legal capital. Contributed capital may be increased by formal capitalization of profits or reduced by losses in a quasi-reorganization; and (3) the designation as "accumulated profits" rather than as "earned surplus" of the excess of profits over dividends paid therefrom, losses and amounts of profits capitalized.

The final portion of the report presents a discussion of the various proposals indicating clearly the underlying considerations upon which the proposals are based.

(3) Accounting Procedures

George O. May in an address "War and Accounting Procedures," published in the May 1942 issue of *The Journal of Accountancy,* discusses the possible modifications which must be made in accounting procedures in order to meet the conditions arising in the present war. Research Bulletin No. 13, issued by the American Institute of Accountants and reviewed in the April 1942 issue of *The Canadian Chartered Accountant,* formed the basis of the address.

The degree of uncertainty attached to the customary determination of income is not only greatly increased by the hazards of war but takes on added significance due to the higher rates of war taxation which are imposed on business in general. Although uncertainties have increased the main objective of accounting remains even in the war economy that of making charges against revenue as nearly as possible in the same period as that in which the revenue is received and should be based as far as possible on definite evidence or reasonably formed estimates.

Although the customary use of accounts is to reveal earning capacity and indirectly to present a basis for determining value, this aspect is removed under wartime conditions. "Nobody is now regarding current figures of earnings as any indication of what may be expected in the future or of the value of securities that depends upon what does happen in the future." In the place of stressing net earnings the accounting records in a wartime economy take on as their main purpose rather the presentation of a basis

for fiscal policy and taxation in which conservatism is the cardinal virtue.

The significance of the accrual basis of accounting in a war economy is indicated in meeting the problem of required estimations due to increased uncertainties. "Corporations could deduct reserves in making their tax returns with proper provisions so that the government would collect the tax if the reserves proved to be unnecessary."

The final portion of the address covered short discussions on certain specific problems which have arisen from the present war covering rearrangement of facilities, inventories, separation allowances, surplus charges and railroad reorganization.

(4) Federal Government Accounts

Lloyd Morey in an article "Financial Reporting in the Federal Government," published in the April 1942 issue of *Accounting Review* (Chicago), outlines the different types of accounts utilized in recording the financial transactions of the government of the United States. The author indicates the types of financial reports which are prepared from such accounts as a means of indicating the extent to which the financial reporting of the federal government falls short of its essential purpose of compiling and disseminating information concerning financial operations and condition for the benefit and guidance of the management and the public.

The seven principles applicable to governmental reporting advanced by the governmental committee of the American Institute of Accountants submitted in March 1940 are set out as prerequisites if order and completeness are to come in Federal reporting. These are followed by a review of recent steps which have been taken in the field of governmental reporting and an indication of the extent to which the present system is deficient is set out. "The accounting of the government as a whole is still incomplete and lacking in uniformity, with systems prescribed but not followed, with prescriptions that are only partially adequate, with no means of bringing financial data together in such a way as to show a complete picture of the government as a whole."

(5) Capital Gains

George O. May in an article "The British Treatment of Capital Gains" published in the June 1942 issue of *The Jour-*

nal of Accountancy presents the fundamental differences which exist between the British and American practice in the taxation of capital gains.

The chief difference of view in income taxation as between the United States and Great Britain shows itself in the differing basic concepts of income within the two countries. Although the English courts have not attempted to define income, they have indicated that an accretion to capital is not taxable as income in the absence of language specifically taxing it. The Supreme Court of the United States on the other hand has expressed the common American view in defining income so as to include capital gains.

The evolution of the meaning of "capital gains" with particular reference to the inclusion of profits which were not "annual" in nature within the British income tax structure is traced and illustrated by references to specific court cases.

MUTUAL-AID AGREEMENT

Between the United States and Great Britain*

AN agreement between the Governments of the United States and Great Britain on the principles applying to mutual aid in the prosecution of the war was signed on 23rd February by the Acting Secretary of State and the British Ambassador.

The agreement was made under the provisions of the Lend-Lease Act of 11th March 1941. By this act of the Congress, and the great appropriations by which it has been supported, this nation is able to provide arms, equipment, and supplies to any country whose defense is vital to our own defense.

On 7th December 1941 we were attacked. We are now one of the twenty-six United Nations devoting all of their united strength to the winning of this war and to the establishment of a just and lasting peace. The vast resources which Providence has given us enable us to ensure that our comrades in arms shall not lack arms. Congress has granted the authority and the means. United and

*As published in the issue of 18th February 1942 of the *Bulletin* of the Department of State, Washington.

equipped by the overwhelming productive power of their resources and ours, we shall fight together to the final victory.

Recent developments in the war have shown, if proof was required, the wisdom and necessity of the policy of lend-lease supplies to the United Nations. That policy continues and is expanding to meet the expanding needs of the fighting fronts. The agreement signed on 23rd February reaffirms our purpose to supply aid to Great Britain. The British Government will supply this country with such reciprocal aid as it is in a position to give.

As to the terms of settlement between the two countries, the agreement states that it is too early in this struggle to foresee or define the precise and detailed terms. Instead the agreement lays down certain of the principles which are to prevail. These principles are broadly conceived, for the scale of aid is so vast that narrow conceptions of the terms of settlement would be as disastrous to our economy and to the welfare of our people as to the welfare of the British people. Articles which at the end of the war can be returned to us and which we wish to have back, will be returned. Full account will be taken of all reciprocal aid.

The fundamental framework of the final settlement which shall be sought on the economic side is given in Article VII. It shall be a settlement by agreement open to participation by all other nations of like mind. Its purpose shall be not to burden but to improve world-wide economic relations. Its aims will be to provide appropriate national and international measures to expand production, employment, and the exchange and consumption of goods, which, the agreement states, are the material foundations of the liberty and welfare of all peoples, to eliminate all forms of discriminatory treatment in international commerce, to reduce tariffs and other trade barriers, and, generally, to attain the economic objectives of the Atlantic Charter.

To that end Article VII provides for the early commencement of conversations, within the framework which it outlines, with a view to establishing now the foundations upon which we may create after the war a system of enlarged production, exchange, and consumption of goods for the satisfaction of human needs in our country, in the British

Commonwealth, and in all other countries which are willing to join in this great effort.

Text of Agreement

The text of the agreement follows:

Whereas the Governments of the United States of America and the United Kingdom of Great Britain and Northern Ireland declare that they are engaged in a co-operative undertaking, together with every other nation or people of like mind, to the end of laying the bases of a just and enduring world peace, securing order under law to themselves and all nations; and

Whereas the President of the United States of America has determined, pursuant to the act of Congress of 11th March 1941, that the defense of the United Kingdom against aggression is vital to the defense of the United States of America; and

Whereas the United States of America has extended and is continuing to extend to the United Kingdom aid in resisting aggression; and

Whereas it is expedient that the final determination of the terms and conditions upon which the Government of the United Kingdom receives such aid and of the benefits to be received by the United States of America in return therefor should be deferred until the extent of the defense aid is known and until the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests of the United States of America and the United Kingdom and will promote the establishment and maintenance of world peace; and

Whereas the Governments of the United States of America and the United Kingdom are mutually desirous of concluding now a preliminary agreement in regard to the provision of defense aid and in regard to certain considerations which shall be taken into account in determining such terms and conditions and the making of such an agreement has been in all respects duly authorized, and all acts, conditions, and formalities which it may have been necessary to perform, fulfil, or execute prior to the making of such an agreement in conformity with the laws either of the United States of America or of the United Kingdom have been performed, fulfilled, or executed as required.

The undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows:

ARTICLE I

The Government of the United States of America will continue to supply the Government of the United Kingdom with such defense articles, defense services, and defense information as the President shall authorize to be transferred or provided.

ARTICLE II

The Government of the United Kingdom will continue to contribute to the defense of the United States of America and the strengthening thereof and will provide such articles, services, facilities, or information as it may be in a position to supply.

ARTICLE III

The Government of the United Kingdom will not without the consent of the President of the United States of America transfer title to, or possession of, any defense article or defense information transferred to it under the act, or permit the use thereof by anyone not an officer, employee, or agent of the Government of the United Kingdom.

ARTICLE IV

If, as a result of the transfer to the Government of the United Kingdom of any defense article or defense information, it becomes necessary for that Government to take any action or make any payment in order fully to protect any of the rights of a citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the United Kingdom will take such action or make such payment when requested to do so by the President of the United States of America.

ARTICLE V

The Government of the United Kingdom will return to the United States of America at the end of the present emergency, as determined by the President, such defense articles transferred under this agreement as shall not have been destroyed, lost, or consumed and as shall be determined by the President to be useful in the defense of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.

Article VI

In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom full cognizance shall be taken of all property, services, information, facilities, or other benefits or considerations provided by the Government of the United Kingdom subsequent to 11th March 1941, and accepted or acknowledged by the President on behalf of the United States of America.

Article VII

In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the act of Congress of 11th March 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the joint declaration made on 12th August 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded governments.

Article VIII

This agreement shall take effect as from this day's date. It shall continue in force until a date to be agreed upon by the two Governments.

Signed and sealed at Washington in duplicate this twenty-third day of February 1942.

JUDGMENT RESPECTING THE INCOME WAR TAX ACT

The William H. Malkin Case

IT IS frequently the case as an aftermath to income tax act litigation that amendments to the statute are enacted in an effort to stop the gap which the litigation has revealed. Not often, however, is a decision reported on the effect of the amended legislation on precisely the same situation. Mr. Justice Maclean, president of the Exchequer Court of Canada, by judgment rendered 29th June 1942, found again in favour of the appellant on the principal of three points of appeal, though dismissing the appeal on the other two points. The issue had been before him in 1938 and his judgment was summarized in the September issue of that year of THE CANADIAN CHARTERED ACCOUNTANT.

The Issue in 1938

It will be recalled that Mr. Malkin, who resided in Vancouver, had constituted a family settlement with his four children and the Toronto General Trusts Corporation, as trustee, by which he transferred to the trustee life insurance policies, an undivided interest in real estate known as "Southlands" and certain shares in a company described as "the Malkin Company." The children who owned the rest of the undivided interest in Southlands joined in transferring it to the trustee with instructions to the trustee to provide the upkeep and sell the property when a reasonable price could be obtained. The trustee was also obligated to pay the insurance premiums. Later, the children consented that Mr. Malkin might reside in Southlands without paying rent. In the previous case Mr. Justice Maclean held an assessment invalid which sought to assess Mr. Malkin for income tax upon the amount expended by the trustee on Southlands during his free occupancy thereof. The Crown sought to justify the assessment on the basis that the amount expended constituted within the words of section 3(e) "personal and living expenses . . . form (ing) part of the profit, gain or remuneration of the taxpayer."

The Issue in 1942

The judgment under review considered an assessment made upon 1938 income. The trustee had expended $11,104.13 in the year, of which $10,344.68 was expended on Southlands and on insurance premiums. An amendment

was made to section 3(e) of the *Income War Tax Act* and a new definition was introduced in 1939 applicable to 1938 income, of which Mr. Justice Maclean said "it is quite manifest that it was one of the purposes of the amending statute to capture the tax assessed in this case, but I think the draftsman has not succeeded in doing so." The amendment to section 3(e) added to the part of the section above quoted the words "or the payment of such constitutes part of the gain, benefit or advantage accruing to the taxpayer under any estate, trust, contract, arrangement or power of appointment, irrespective of when created." A definition of "personal and living expenses" was introduced as section 2(r) and the phrase was stated to include (a) expenses of properties maintained by any person for the use or benefit of any taxpayer or any person connected with him by blood relationship, marriage or adoption, and not maintained in connection with a business or otherwise with a prospect of profit, and (b) costs of life insurance, annuities, etc., if the proceeds "are payable to or for the benefit of the taxpayer or any person connected with him by blood relationship, marriage or adoption."

Judgment

The learned judge expressed confusion as to the effect of section 2(r) and stated that "any attempt to construe those words (from 'or any person connected with' to the end of each subparagraph) literally and without some further statutory provision would appear to lead to some strange results, results which one can hardly believe could ever have been contemplated by the legislature." He pointed out however that section 2(r) was not a provision enacting when "personal and living expenses" are to be included as taxable income. One must still look at the definition of income in section 3 and to subsection (e) thereof to ascertain when, and under what state of facts "personal and living expenses" constitute taxable income. In his lordship's view the expenses of maintenance of Southlands and the payment of the insurance premiums did not form part of the profit, gain or remuneration of the appellant and the payment of such expenses by the trustee did not constitute part of any gain, benefit or advantage "accruing to the taxpayer under any estate, trust, contract . . ." It will be remembered that Mr. Malkin enjoyed the use of Southlands

by permission of his four children and not under the terms of the settlement. On this point the appellant succeeded.

Other Issues

There were two other points to be dealt with, each having nothing to do with the one hitherto discussed. The appellant and his two brothers owned a warehouse leased to the Malkin Company during the relevant period from 1st March 1937 to 19th November 1938. The appellant asserted that on 3rd November 1938 he and his brothers and the Malkin Company orally agreed to sell the warehouse to the Malkin Company for $77,000 being the price paid for it by them in 1935 and they proposed to apply on the purchase price all rentals received by them from 1935. On 19th November 1938 this oral agreement was carried out. The interest of the three brothers in the warehouse was operated by them as a partnership with a fiscal period from 1st March to 28th February. The appellant's share of the net rentals for the period 1st March 1937 to 28th February 1938 was $9,086.73 and for the period from 1st March 1938 to 19th November 1938 was $4,131.03. Both sums were assessed against him as income received in 1938. He argued in vain that by virtue of the oral agreement these income receipts had been converted into capital receipts. Alternatively, but equally unsuccessfully, he argued that his share of the rentals received in 1938 only should be assessed, eliminating the rentals received in that part of the fiscal period ending 28th February 1938 which was before 1st January 1938. Mr. Justice Maclean pointed out that the agreement made in November 1938 could have no effect on the nature of the payments received except as between the parties to the agreement. The payments were received as income and would remain taxable income notwithstanding the right of the taxpayer to deal with it as he saw fit. On this point his lordship entertained no doubts whatever. As to assessing in 1938 rentals received in 1938 only, he pointed out that under the Act, a partnership could have a fiscal period different from the calendar year and this the Malkin brothers had chosen to do. One fiscal period ended on 28th February 1938 and another ended on 19th November 1938 when the partnership was dissolved by the sale of the property. The appellant was properly assessed individually for his share of profits of the partnership for all fiscal periods ending in 1938. No order was made as to costs.

ECONOMIC NOTES

Editor's Note: **This is one in a series of articles on current economic subjects by Professor W. J. Waines, M.A., and Professor W. H. Poole, M.A., of the University of Manitoba.**

THE Budget introduced by the Minister of Finance on 23rd June is one of the most encouraging acts of the government in recent months. So far attention has been fixed principally on the amount which taxpayers will have to pay during the next year and, as a consequence, some of the more important economic implications of the Budget have not been clearly recognized. It is the purpose of this note to point out one or two of the more important implications of the increases in taxation imposed by this Budget.

The Minister of Finance pointed out in his speech in the House of Commons that during the last fiscal year the dollar output of goods and services in Canada increased by about 25 per cent and expenditures on war increased by a somewhat greater absolute amount. But instead of a reduction in the expenditures of individuals on consumption, as one might have expected, there was, in fact, a substantial increase in these expenditures. Retail sales at the close of the fiscal year 1941-1942 were about 20 per cent above the previous year. After making the necessary allowance for higher prices the quantity of goods sold was estimated to be 20 to 25 per cent above the pre-war level. The reasons for this increase were ably stated by Mr. Ilsley in his speech. On the one hand, there was in effect an increase in the supply of goods going into consumer use through the decline in inventories and because a part of our purchases from the United States was paid for out of our reserves of foreign exchange and by borrowing from the United States. Instead of paying for the whole of our purchases from the United States out of current Canadian production our reserves of American money were reduced. On the other hand the money incomes of individuals were substantially increased as a result of increased expenditures by government and private enterprise. Government revenues did not come wholly out of the current incomes of Canadians but came partly out of idle bank balances (i.e. they were converted from inactive to active balances) and partly out of bank loans to the government and to private individuals. The net result was that while there was an

increase in the volume of goods going into the hands of consumers there was a still greater increase in money incomes and spending power in the hands of these same people. The evidence of this, of course, was the very rapid rise in the cost of living during the summer of 1941. This rise in prices led to the imposition of the over-all price ceiling policy in October 1941.

Reducing the problem of controlling the cost of living to its simplest terms, the government must see to it that spending power in the hands of consumers, and the money spent by them on consumption, is held down to a level which will enable consumers to buy no more than the amount of goods available at existing prices. If consumer spending is permitted to increase faster than the available supply of consumers' goods pressure on the price level is inevitable, and it is doubtful if the most comprehensive price control, short of complete rationing, will avail in the end to prevent serious increases in the cost of living.

This is one of the most significant aspects of the Budget. The tremendous increases in taxation together with the payroll deduction and compulsory instalment features will materially relieve the pressure on prices through reducing the spending power of individuals. Perhaps it does not go far enough, but it can be said with confidence that the magnitude of the price controller's problem is reduced. As Mr. Ilsley put it: "The price ceiling, a sound policy which is being administered with great courage and imagination, cannot itself defeat inflation." Supplemented by high taxation and rationing of supplies its chances of success are greatly improved.

It has been emphasized many times that the war is fought with materials not money. Fiscal policy is merely an instrument to aid in the release of materials and labour for war purposes. No one will pretend that the fiscal instrument alone is adequate. Control of supplies, priorities and so on, are indispensable. The point, however, is that, subject to the necessity of controls with respect to individual commodities, the problem of diverting materials, labour and plant from civilian to war industries is materially reduced if consumer purchasing power is limited so that the consumer will not be bidding against the government for these same things. The problem of producing an adequate supply

of guns or aeroplanes is not a simple matter. Many kinds of materials and labour are involved at the various stages of production and it is necessary to reduce the consumers' ability to buy products which use these materials and labour. The provisions of the Budget should contribute materially to the solution of this problem.

With respect to these two phases of the war effort the Budget represents a sound advance in policy. Perhaps the rates of taxation are not yet high enough, especially in the moderate and low income brackets. Perhaps the incomes of farmers are not sufficiently taxed because of the difficulties of levying an income tax on this group. Probably the next Budget will go still farther in the direction of an all-out war effort.

W. J. WAINES.

Winnipeg,
14th July 1942.

Table of Exchange Rates

(Kindly supplied by The Canadian Bank of Commerce, Toronto)

	30th June 1942	*15th July 1942*
U.S. Dollars	10-11% P.	10-11% P.
Sterling	443-447	443-447
Australian Pounds	358½	358½
New Zealand Pounds	360	360
South African Pounds	443	443
British West Indies—Dollars	9270	9270
India—Rupees	3356	3356
Hong Kong—Dollars (Custodian rate)	2781	2781
Straits Settlements—Dollars (Custodian rate)	5226	5226
Sweden—Kronor	2637	2637
Switzerland—Francs	2569	2569

Note: The above currencies are expressed as follows: Pound currencies—Canadian cents per unit; Continental currencies and sundry British Empire—Canadian cents per 100 units.

GENERAL NOTES

Index Figures of Living Costs

The cost-of-living index in Canada advanced from 116.1 on 1st May 1942 to 116.7 on 1st June 1942. (Previous reference—page 54 of July issue)

When the price ceiling was effected in Canada on 1st December 1941, the index stood at 115.8. The increase from that time to 1st June last has therefore been less than one point. Adjustments of wages to price levels are made on the basis of this index. The living bonus is paid for every point the index rises above the level of October 1941 when the index stood at 115.5. Changes in the bonus are announced every three months by the National War Labour Board. The next change will be announced to take effect in the first payroll early in August if the index at that time is 116.5 or higher.

Judgment Against Auditors

The recent judgment of the Saskatchewan Court of Appeal against the auditors in the case of *McBride's Limited* v. *Rooke & Thomas* was reported in the *Dominion Law Reports* of 25th June 1942. The judgment of the Saskatchewan King's Bench was reported in the issue of 24th July 1941. The *Reports* are published by the Canada Law Book Company, 417 Terminal Building, Toronto, (single copies seventy-five cents).

Wartime Wages Control Order

By the Wartime Wages and Cost of Living Bonus (Order in Council P.C. 8253 of 24th October 1941) provision was made for the stabilization of wage rates and for the payment of a cost of living bonus.

From time to time amendments were made to that order, and as further amendments were necessary, the Order has been revoked and Order in Council P.C. 5963 of 10th July 1942, cited as the "Wartime Wages Control Order," takes its place as from the date of publication in *The Canada Gazette* (14th July 1942).

A copy of the published Order has been sent by the Secretary of the Dominion Association to the reference library of each Provincial Institute.

Copies of that particular issue of *The Canada Gazette* (No. 18, Extra, 14th July 1942) may be obtained from the King's Printer, Ottawa, at ten cents a copy (postage stamps not accepted).

Income and Excess Profits Taxes

The following notice to incorporated companies respecting Income and Excess Profits Taxes, Instalment Payments, and New Tax on Profits below $5,000 has been issued (July 1942) by the Income Tax Division of the Department of National Revenue:

The attention of all companies is drawn to the change in the Income and Excess Profits Tax Acts respecting the payment of taxes.

The tax payable by a company under both Acts must be paid by monthly instalments during the six months immediately prior to the close of its fiscal period and six months subsequent to the close of its fiscal period as follows:

(*a*) as to the first six months 1/12 of the estimated tax each month, having regard to the previous or anticipated current year's income, applying the new rates, and

(*b*) as to the second six months, 1/6 of the tax each month, (after deducting therefrom the previous six months' payments) on the income (of the period just closed), at the new rates.

This change applies to tax on profits of fiscal periods ending on or after 31st December 1942.

A company whose fiscal period ends 31st December 1942 must pay the first instalment of 1942 tax (both Income and Excess Profits) calculated as in paragraph (*a*) above, on or before 31st July 1942. If the fiscal period ends during January 1943, the first instalment must be paid in August 1942; if the period ends in February 1943, the first payment must be made in September 1942 and so on progressively by months.

This requirement is not to be confused with any method of optional pre-payment of taxes heretofore in effect. It is a new and continuing requirement of the taxing laws.

Substantial interest will be charged with respect to any unpaid monthly instalments.

It is particularly pointed out that companies with profits **not** in excess of $5,000, before providing for any payments to shareholders by way of salary, interest, or otherwise, and which heretofore have been entirely exempt from Excess Profits Tax are now liable to an Excess Profits Tax of 12% in addition to the Income Tax of 18% making a total tax of 30%.

For your guidance a summary of the rates presently in force and those applicable as from the first of July 1942 are stated below together with a brief explanation of their application:

Rates of Tax to 30th June 1942

1. Income Tax 18%
2. Excess Profits Tax on total profits 22%

or

3. Excess Profits Tax on excess profits 75%

(The greater of 2 or 3.)

Rates of Tax from 1st July 1942

1. Income Tax 18%
2. Excess Profits Tax on total profits 12%
3. Excess Profits Tax on total profits 10%

or

4. Excess Profits Tax on excess profits 100%

(The greater of 3 or 4.)

Excess Profits Tax to 30th June 1942

The greater of 22% on the total profits or 75% on the Excess Profits, after deducting therefrom Income Tax on such Excess Profits, is payable. If the total profits are in excess of 155.69% of the standard profits the 75% rate applies on the Excess Profits over the Standard Profits.

Excess Profits Tax from 1st July 1942

The 12% rate is payable in all cases, together with the greater of 10% of the total profits or 100% of the Excess Profits after deduction from the latter of the 18% Income Tax and 12% Excess Profits Tax thereon. If the total profits are in excess of 116.66% of the standard profits the 100% rate applies on the Excess Profits over the Standard Profits.

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Note:—A company whose fiscal period closes prior to 31st December 1942 will continue to file its return and pay its tax as heretofore. The new law applies to fiscal periods ending on and after 31st December 1942. Copies of the Remittance Form (T7B—Corporations) are now available.

Purchasers' Symbols

The Canada Gazette (No. 1 Extra of 10th July 1942) contains the details of an order issued by the Priorities Officer (Order No. P.O. 1) establishing the Allocation Classification System. The classification symbol as required by the instructions must be indicated by every person placing a purchase order or contract on (1) all purchase orders or contracts placed after 10th July 1942, and (2) all purchase orders or contracts either heretofore or hereafter placed, calling for delivery after 31st July 1942. Copies of the Order, as described above, can be obtained from the King's Printer, Ottawa, at ten cents a copy. The Secretary of the Dominion Association has sent a copy to the reference library of each Provincial Institute.

The Wartime Prices and Trade Board Regulations

By Order in Council P.C. 2516 of 3rd September 1939, the Wartime Prices and Trade Board was constituted. Wartime Prices and Trade Board regulations were made to provide safeguards under war conditions against any undue enhancement in prices of food, fuel and other necessaries of life and to ensure an adequate supply and equitable distribution of such commodities.

These regulations were amended from time to time, and a consolidation of them has been published in *The Canada Gazette* of 11th July 1942 (pages 177 to 183 inclusive).

Individual Effort

Individual effort is comparatively rare.

Man's natural instinct is to work in a group.

Therefore, when there is a responsible job to be done, his first step usually is to form a committee, council or board to do it.

Co-operative effort of this sort, however, is wasteful and inefficient. Applied to commerce it is disastrous, for most business men know that a committee cannot successfully run a business.

In management, the burden of responsibility must be laid on the shoulders of an individual. He must be in a position to make decisions and to act on them.

Herein is the weak point about co-operative management—and incidentally, the reason why this form of effort is so popular—that individual responsibility is evaded and the necessity for making personal decisions obviated.

Individual effort is the foundation of all progress.

One man, not an aviation society, first flew the Atlantic; one man, not a merchant's association, started and built up Woolworths; one man, not a motoring club, made and marketed the first Ford car.

Therefore, if work of real importance, especially of a pioneering nature, arises, it is the individual who must do it.

This fact will be very heartening to younger practitioners who are struggling to build up a practice in accountancy or law. Big firms and huge combines only follow where individuals have led.

True, in "big business" they can do things on a grander scale and can make more money, but they can never experience the pure joy of accomplishment through individual effort.

As I see it, the ideal for human accomplishment is: Do it yourself.

By all means use the fullest and most expert assistance procurable, but the initiative and driving power must come from you.

Therefore, if a great task lies before you, go to it alone. If you show signs of being successful the crowd will follow you.—*The Federal Accountant* (Australia).

Dominion Prize Winners in the June 1942 Final Examination of the Provincial Institutes of Chartered Accountants

EDWIN C. LAMONT

EDWIN C. LAMONT, Winnipeg, a candidate of The Institute of Chartered Accountants of Manitoba, was awarded the Gold Medal and cash prize of $50 of The Dominion Association of Chartered Accountants for the candidate winning first place in Canada in the Final examination conducted in June 1942 throughout the Dominion by the Provincial Institutes of Chartered Accountants. Mr. Lamont is the son of Mr. and Mrs. A. W. Lamont, 447 Telfer Avenue, Winnipeg, and a graduate of the University of Manitoba.

JOHN R. BARKER, a candidate of The Institute of Chartered Accountants of Manitoba, was awarded the Silver Medal and prize of $25 of The Dominion Association of Chartered Accountants for the candidate winning second place in Canada in the Final examination conducted in June 1942 throughout the Dominion by the Provincial Institutes of Chartered Accountants. His parents reside at Dauphin, Manitoba. Mr. Barker is a graduate of the University of Manitoba.

JOHN R. BARKER

Condensed Financial Statements of Dominion and Provinces

Their eighth annual edition of the "Comparative Condensed Statements of the Dominion of Canada and Provinces" has just been issued by A. E. Ames & Company, Limited, Toronto. Particulars of the increase (or decrease) in the net total funded debt of the Dominion and of each Province during the fiscal year ending within 1941, and of their current revenues and expenditures, are set forth on a double page $8\frac{1}{2}'' \times 10\frac{3}{4}''$. The reader will be amazed to find so much information contained in so small a space. On inquiry we find that copies of the edition are available from the Company on application.

PROVINCIAL NEWS

ALBERTA

The thirty-second annual meeting of the Institute of Chartered Accountants of Alberta was held on Saturday, 27th June 1942, at the Palliser Hotel, Calgary, under the chairmanship of the President, M. G. Graves.

The meeting was as usual preceded by a luncheon at which the following guests were present: Mayor Davison of Calgary, the Very Reverend Dean Ragg of Calgary, J. E. A. Macleod, K.C., the solicitor of the Institute, M. C. McCannel, the president of the Dominion Association, a number of members of the Armed Forces associated with Registered Societies, and the next-of-kin of the new members.

Mayor Davison welcomed the members on behalf of the City and thereafter presented the medals and membership certificates to the successful candidates. Dean Ragg gave a most inspiring address.

The gold medal was won by Alexander J. Hamilton, the silver medal by Harold F. Herbert, and the bronze medal by Ian L. Morrison. Membership certificates were presented to Frederick O. Delay, Alexander J. Hamilton, Kenneth L. MacFadyen, James E. Paterson, William H. Power, Clarence A. Richards, Reginald J. Snell, Gordon W. Stewart, Haughton G. Thomson and William C. Willetts. The certificate of membership as a Fellow of the Insitute was presented to Malcolm C. McCannel.

At the annual meeting which followed the members

stood in silence in remembrance of John Henry Williams who passed away during the year. Mr. Williams was secretary of the Institute for many years, a former president and a Fellow of the Institute. He will always be remembered by his associates for his outstanding qualities and high integrity.

Members elected to the Council for the ensuing year were B. G. Aylen, H. A. Black, M. G. Graves, J. A. Henderson, C. K. Huckvale, T. Humphries, M. C. McCannel, K. J. Morrison, W. F. Reid and W. G. Skinner. J. M. Tweddle was appointed honorary auditor and the Secretary-Treasurer was appointed to represent the Institute on the Faculty Council of the School of Commerce of the University of Alberta.

It was noted that sixteen members and thirty-three students of the Institute are with the Armed Forces.

The meeting decided to continue the offer of a prize of $25 for any article accepted for publication by the editor of The Canadian Chartered Accountant.

At the first meeting of the newly elected Council the following officers were elected: President, B. G. Aylen; Vice-Presidents, K. J. Morrison and W. G. Skinner; Secretary-Treasurer, J. A. Henderson.

On Saturday evening, following the annual meeting, a dinner was held at the Palliser Hotel.

BRITISH COLUMBIA

The thirty-seventh annual meeting of the Institute of Chartered Accountants of British Columbia was held in the Hotel Vancouver, at Vancouver on Friday, 3rd July 1942.

Mr. K. D. Creer, President of the Institute for the past year, occupied the Chair.

The President's report and those of the various committees dealing with the year's activities of the Council were submitted and adopted. Amendments to the by-laws governing articled time requirements before students become qualified to sit for their Intermediate examinations as well as by-laws prescribing the subjects to be covered in each of the two sections into which the Intermediate and Final examinations are to be divided were submitted and confirmed.

The following members were elected to the Council for the ensuing year: G. C. Chambers, Frederick Field, R. C. Field, R. R. Keay, C. Barrett-Lennard, Wm. Macintosh, J. J. Plommer, A. H. Rathie, D. H. Sheppard, L. R. Sinclair, B. E. Stokes and J. Haydn Young. At a meeting of the new council held on 17th July the following officers were elected for 1942-43; President, Wm. Mackintosh; Vice-President, R. C. Field; Secretary-Treasurer, H. Norman Lunn.

A motion was unanimously passed expressing the regret of the members of the Institute at Mr. W. G. Rowe's action in not permitting his name to be included among those nominated for re-election to the Council. A hearty vote of thanks to Mr. Rowe for his services in the interests of the students and of the profession generally was also recorded.

In the afternoon the members, together with members of other Provincial Institutes resident in Vancouver, were invited to avail themselves of the golf or tennis facilities of the Shaughnessy Heights Golf Club, after which the Institute was host at an informal dinner.

In welcoming the guests at the dinner, the President took the opportunity of expressing his appreciation of the kindness of Kenneth Dalglish, the Past President of the Dominion Association and Member of the Board of Referees appointed under *The Excess Profits Tax Act*, in attending. Thereafter, he presented Institute membership certificates to the following candidates who were successful in passing the recent Final examination: G. F. Dunn of Victoria, G. M. Miller, J. A. McIntyre and H. G. Watson of Vancouver.

At the President's request, Mr. G. F. Gyles made the presentation of appropriate prizes to the winners of the various golf events.

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The Institute announces the following results in the June Final examination: Passed, F. G. Copithorne and D. F. Corbett; granted supplemental examinations: A. H. Affleck (accounting four papers), R. M. Bain (accounting I and IV), F. J. Holden (accounting III and IV), J. C. Melville (accounting four papers), and J. E. Robertson (accounting four papers).

MANITOBA

The members of the Institute of Chartered Accountants of Manitoba held their 56th annual meeting at Lower Fort Garry on Wednesday, 24th June. The annual report of the Council and the accounts for the year ended 31st May 1942 were received and other business transacted.

Members were advised that the Council had, on recommendation of the Committee on Students' Studies, awarded the following scholarships to students attending the Institute Lecture Course for the session 1941-1942:

First Year class in English, Mathematics, and Accounting, $50.00, to Marion C. MacTaggart.

Second Year class in Accounting and Auditing, $50.00, to E. Roy McKerchar Essery.

Fourth Year class in Accounting and Auditing, $50.00, to John Rawson Barker.

Members elected to serve on the Council for the two-year term ending May 1944 were: Alex. Gray, William Gray, H. M. Hoover, J. Gray Mundie, John Parton, Daniel Sprague and William Young. D. S. Lofthouse was reappointed auditor.

After disposing of all business the members adjourned for luncheon on the verandah of the Motor Country Club.

The Manitoba Chartered Accountants' Benevolent Association held its 10th annual meeting on 24th June immediately preceding the annual meeting of the Institute.

The Trustees' statement showed an improved financial position, and on behalf of the Trustees, the Chairman, Mr. T. H. Rathjen, thanked the members who had rallied to the support of the Fund during the year. Reference was made to the loss sustained by the Association by the death of Mr. Fred C. Gilbert, who had not only contributed to the Fund but had also acted as honorary secretary of the Association since its inception. The members stood for one minute in silent tribute to his memory.

The retiring Board of Trustees, consisting of E. J. Williams, chairman; R. Vernon Fletcher, vice-chairman; T. H. Rathjen, W. Stanley Rothwell and Frederic J. Tibbs, was re-elected. Votes of thanks were passed to the Council for continuing to take care of all expenses, and to Mr. D. S. Lofthouse, who was reappointed honorary auditor.

NOVA SCOTIA

The forty-second annual meeting of The Institute of Chartered Accountants of Nova Scotia was held at the Lord Nelson Hotel, Halifax, on Monday, 15th June 1942.

Reports of the President and committees of the Council were presented, outlining the work of the Council during the past year; and a report on the meeting of The Dominion Association of Chartered Accountants held at Vancouver was also presented by G. E. Martin, who attended as the representative of the Institute.

Two new members, Robin C. Buchanan and Edwin P. Cohn, who had been admitted during the year, were welcomed to the meeting.

In remembrance of two members of the Institute, Henry D. Creighton and W. E. Leverman, who passed away during the year, a period of silence was observed.

The election of officers and council for the ensuing year resulted as follows: President, H. R. Doane; Vice-President, L. J. Wilson; other members of the council: R. I. Balcom, H. J. Egan, T. H. Johnson, G. E. Martin, W. A. Morrell, J. C. Nicoll, F. A. Nightingale, L. E. Peverill and F. L. Silver. H. R. Doane was also appointed representative on the Council of The Dominion Association of Chartered Accountants.

At the first meeting of the newly elected Council, held on Tuesday, 30th June at the City Club, L. E. Peverill was re-elected Secretary-Treasurer of the Institute.

ONTARIO

The Institute of Chartered Accountants of Ontario announces the following results in the Final examination of the Provincial Institutes of Chartered Accountants held in June last. This year by special resolution of Council, fifth year students who are subject to call for military service before 1st December 1942 were able to write their Final examination in June instead of waiting until December.

Passed Full Examination: N. D. Aubin, K. W. Ball, J. L. Biddell, C. M. Burke, G. K. Carr, W. D. Caskey, G. A. Church, H. E. Clayton, I. H. Coulton, J. B. Currier, N. L. Death, K. H. Dunn, A. Freedman, J. K. Ferguson, D. R.

Gormley, J. S. Grant, G. W. Hawes, H. R. Heard, J. W. Herold, C. G. Horn, C. Houser, W. D. Howison, L. Kirshenbaum, W. T. D. Lake, C. W. Leask, A. C. Madgett, C. V. Maltby, W. J. Millyard, J. M. Page, J. S. Petrie, E. B. Richards, C. G. Robinson, R. M. Saunders, F. H. Sheldon, B. T. Stephenson, N. I. Stone and H. Wood.

Granted Supplemental Examination: The following passed in all but the subjects indicated and have been granted a supplemental examination therein: A. W. Coome (Auditing I & II); C. H. Hunt, C. F. Wilson (Auditing I and II and Economics); F. R. Brand, J. K. Hagan, B. K. Jackson, J. B. Kearney, L. I. Papoff, G. H. Richmond, Thomas Roden, H. V. E. Slaney (Accounting all papers); R. J. M. Allan, T. R. Caldwell, D. A. Colquhoun, Bernard Gordon (Accounting all papers and Economics); W. J. H. Coggins, G. S. Pover (Accounting I & IV); C. R. Welch (Accounting II & III); G. B. Donaldson (Accounting II & IV); J. T. Bowles, G. F. Hogarth, F. W. Fredenburg (Accounting III & IV); E. A. Leftly, Max Stern (Economics).

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The fifty-ninth annual general meeting of The Institute of Chartered Accountants of Ontario was held at the Royal York Hotel, Toronto, on 26th June 1942 at 10 a.m. and was attended by a representative number of members. The President, Mr. J. F. Gibson, was in the chair and in his address of welcome referred to the ever increasing number of members and students on active service in His Majesty's forces.

The report of the Council and the financial statement showed that continued progress had been made during the year. The following members were elected to serve on the Council for the year 1942-43: R. H. Bounsall, Ottawa; G. S. Jewell, London; S. G. Richardson, Hamilton; K. LeM. Carter, A. G. Edwards, J. F. Gibson, R. R. Grant, H. P. Herington, E. J. Howson, F. C. Hurst, C. G. McConnell, A. R. McMichael, C. A. Patterson, D. J. Sales and F. S. Vanstone, all of Toronto.

At the first meeting of the Council held immediately after the annual meeting the following were elected officers for the ensuing year: President, F. C. Hurst; First Vice-President, R. R. Grant; Second Vice-President, E. J. Howson; Secretary-Treasurer, G. S. Jewell. The three senior officers of the Institute were appointed representatives on the Council of The Dominion Association with the Secretary-

Treasurer as an alternative. The auditors for the year are S. E. Parker and M. F. Pridham.

It was again resolved not to hold a supper dance and that the amount usually expended thereon be donated to war charities. Accordingly, a donation of $1,000 was voted to the following funds: The British War Victims' Fund, and the Red Cross British Bomb Victims' Fund—$500 to each.

This year, in view of the extra burden of work carried by Chartered Accountants on account of the war and the urgent need for the conservation of gasoline and tires, the golf tournament was not held.

PRINCE EDWARD ISLAND

The Council of the Institute of Chartered Accountants of Prince Edward Island announces that T. Earle Hickey of Summerside, formerly of the Provincial Auditor's Department, was successful in passing the June 1942 Final examination of the Provincial Institutes of Chartered Accountants.

QUEBEC

The Society of Chartered Accountants of the Province of Quebec announces the following results in the Final examination conducted by the Board of Examiners-in-Chief of the Provincial Institutes of Chartered Accountants 1st to 6th June 1942:

Passed Full Examination: Wm. Crompton, S. W. Koch, J. R. Lutes, Gerald Randolph, H. W. A. Robinson, Bernard Roll, A. D. Ruby, Harold Scharf, J. L. Shatsky, M. Steine.

Passed Supplemental Examination: Robert Lewis, H. Lonn and S. Portner.

Granted Supplemental Examination: Gaston Baribeau, J. Belanger, E. M. Boulter, D. Finestone, R. P. Harrison, Wm. Hashim, E. L. Jones, C. G. O'Neill, Moe Prupas and C. D. Shatsky.

Winners of War Memorial Prizes: Bernard Roll, first prize, Gerald Randolph, second prize.

The following students passed the Final examination held 9th to 12th June 1942 at L'Ecole des Hautes Etudes Commerciales de Montreal set under the provisions of Act

17, George V, Chapter 46 and the agreement between the School and the Society:

Passed Full Examination: Marc Angers (Quebec City), Jean Armand, Joseph Bessette, Barthelemy Masse, Ls. Edouard Pressault.

Passed Supplemental Examination: Roland Pouliot, Armand Vezina.

Granted Supplemental Examination: Joseph Morisset, Andre Lanctot, Godfrey Gourdeau, Jean Ostiguy.

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The sixty-first annual meeting of The Society of Chartered Accountants of the Province of Quebec was held in the Assembly Room of the Royal Bank of Canada, 360 St. James Street West, on Thursday morning, 25th June. The retiring President, W. H. Campbell, reviewed the progress of the Society during the past year, and his address will be published next month. The following are the officers and other members of the Council for the year 1942-43: President, Alfred Smibert; First Vice-President, C. F. Elderkin; Second Vice-President, H. C. Hayes; Honorary Secretary-Treasurer, P. F. Seymour; Immediate Past President, W. H. Campbell; A. E. Beauvais, T. V. Burke, Victor Dore, A. I. Fleming, A. W. Gilmour, G. M. Hawthorn, R. E. Humphrey, W. S. Munro and J. A. Weldon.

PERSONALS

Messrs. Peat, Marwick, Mitchell & Company, chartered accountants, announce that they have admitted Mr. John Stanley Swinden, chartered accountant, as a partner in their firm. Mr. Swinden will continue to make his headquarters at the Winnipeg office, Huron and Erie Building.

Members of the Association will be interested to learn that at the annual meeting of the International Gyro Association held in Windsor, Ontario, during the week of 22nd June, two members of the profession in Canada were elected to high office in that body for the coming year—R. G. Rutherford of Kelowna, B.C., as President, and Frank A. Nightingale of Halifax, N.S., as Second Vice-President. The First Vice-President is Harold Darling of New York, and the Third Vice-President, William Mussett of Cincinnati, Ohio.

OBITUARY

The Late Frederick Corson Holden

The Institute of Chartered Accountants of British Columbia regrets to announce the sudden death at Victoria, British Columbia, on 9th June of one of its members, Frederick Corson Holden in his fifty-first year. Mr. Holden was stricken while attending a parade of the 203rd (Reserve) Field Battery, R.C.A., in which he held a commission as a 2nd lieutenant.

Mr. Holden was a partner in the firm of Ismay, Boiston, Holden & Co. and had been a member of the Institute of Chartered Accountants of British Columbia since 1922.

He was also very active in yachting circles, having been an officer of the Royal Victoria Yacht Club for a number of years, and was a prominent member of the Masonic Lodge.

He is survived by his wife, two daughters and three sons, two of whom are serving with the Armed Forces.

The Late Herbert Alfred Malcolmson

The Institute of Chartered Accountants of Ontario announces with regret the death at Toronto on Monday, 6th July, of Herbert Alfred Malcolmson, in his 41st year.

The late Mr. Malcolmson passed his Final examination and was admitted to membership in the Institute on 14th February 1930 while in the employ of Messrs. George A. Touche & Company. For several years he was employed with the Purity Baking Company Limited of Toronto and at the time of his death was with the Good Rich Oil Company Limited, Port Credit, Ontario.

Predeceased by his wife, he is survived by two sons, to whom the Institute offers sincere sympathy.

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

In the 1941 issue of *The Commerce Journal,* Professor C. A. Ashley analyzed writings on the policy of companies in dividing profits between the payment of dividends and the building up of surpluses and concluded with a plea for a thorough statistical study of the policies of Canadian companies. In the current year's issue[1] he is able to present the results of a statistical study of this kind but one limited by the circumstance that "many Canadian companies did not issue statements which were suitable for proper analysis before the changes in the Dominion Companies Act in 1934 and 1935." The study covers a total of sixty-five companies from the iron and steel, distilling and brewing, oil, textile and miscellaneous groupings, each company being taken for as many years back as the adequacy of its published statements would permit. Of these sixty-five companies, fifty-two earned profits (a billion dollars) in excess of dividends (six hundred and eighty millions) and the remaining fifteen distributed dividends in excess of earnings. No statistical summary is given of the uses to which the three hundred and twenty million dollars of retained surplus was put by the group of fifty-two companies, but from textual notes on some individual companies it would appear that the funds were employed predominantly either to increase working capital (particularly inventories) or else to reduce the amount of senior securities in the form of bonds and preferred shares.

* * *

Innumerable problems for the auditor arise out of the presentation of a consolidated balance sheet. A holding company recently published a consolidated balance sheet which included the assets and liabilities of two subsidiary companies which were not wholly owned. One of these subsidiaries had outstanding a large issue of preferred shares

[1]*The Commerce Journal,* April 1942 (The University of Toronto Commerce Club), page 10.

the bulk of which were in the hands of the public and the dividend on which was greatly in arrear. A liability had, however, been set up for the arrears of dividend on the shares held by the public. The other subsidiary was similarly circumstanced with the important difference that the total assets of the company were less than the par value of the preferred shares and it had therefore not been possible to make any provision for arrears of preferred dividends.

The auditor, in his report on the consolidated balance sheet, stated the foregoing facts in respect to these two subsidiaries, gave the amounts of their current assets and current liabilities as included in the consolidated figures and explained that no part of the excess of their current assets over their current liabilities was available to meet liabilities of the holding company.

The information given in this way would enable a reader with some training in accounting and statement analysis to arrive at fairly accurate conclusions but it may still be questioned whether the figures of these two subsidiaries should have been consolidated, or, if the act of consolidation was accepted as reasonable, whether the consolidated balance sheet should not have been accompanied by the separate balance sheets of these partly-owned subsidiaries.

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STUDENTS' ASSOCIATION NOTES

PROVINCE OF QUEBEC

The annual meeting of the Chartered Accountants Students' Society of the Province of Quebec was held on Friday, 19th June 1942, at which the following Officers and Committee were elected: Honorary Presidents, Wm. H. Campbell, C.A., C. N. Knowles, C.A., and Hugh B. Savage, C.A.; President, John F. Lewis, C.A.; Vice-President, Reginald J. P. Dawson, C.A.; Treasurer, E. Lareau; Secretary, J. C. Newland, C.A.; Committee, Frank Hodgson, J. L. Hutchison, C.A., Allan W. King, R. E. Lambert, Andre Leroux, C.A., E. McNeil, D. A. Menard, C.A., James Tildesley, B. B. Tremblay, plus two representatives of the senior Council.

In the absence of the retiring President, Mr. H. B. Savage, the new President, Mr. John F. Lewis, reported a

successful year in which students of both Final and Intermediate grades were assisted in their studies by way of study groups and test examinations and entertained by a Smoker and Field Day.

The Tuition of Students' Committee of the Executive continuously reviewed the courses of study and kept in touch with the students and forwarded recommendations to the Senior Council of the Society of Chartered Accountants on improvements in courses, such as the time and length of lectures, method of lecturing and supplemental examinations.

The membership of the Society at 31st May, including one hundred and ninety chartered accountant members, totalled six hundred and forty-nine. It was noted that one hundred and forty-four students are at present on Active Service, and with deep regret it was reported that two of the Society's most promising members, LAC B. L. McIntyre and Sgt. Gunner M. L. Usher, R.C.A.F. had been killed on Active Service.

PROBLEMS AND SOLUTIONS

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

INTERMEDIATE EXAMINATION, DECEMBER 1941

Accounting II, Question 1 (15 marks)

W. Hardrock, a prospector, is the owner of certain mining claims and in order to dispose of them he forms a syndicate with T. Silver and F. Gold. The Northland Mining Company Limited is incorporated with a capitalization of 1,000 7% preference shares with a par value of $100 each, and 10,000 common shares of no par value.

Silver and Gold paid in cash for 100 and 75 preference shares respectively in the company, and the balance of these shares and all the common shares were issued to Hardrock in payment of the purchase price of the claims. Under the syndicate agreement, Hardrock is to donate to Silver and Gold one preference share for each preference share paid for by them, and 200 preference shares to a trustee for the company which are to be sold and the proceeds turned over to the company for its benefit. He further agrees to donate 9,000 common shares to the syndicate, the proceeds arising from the sale thereof to

be divided among the members in proportion to their final holdings of preference stock.

The donated preference shares were sold at 102, and the common shares at $3.00 per share.

Required:

Prepare the accounts of the syndicate showing the distribution of the profits. Also prepare the balance sheet of the Northland Mining Company after the sale of the donated shares.

SOLUTION

Allocation of Preference Shares

Name	Number of shares allotted for claims	Number of shares allotted for cash	Number of donated shares	Total number of shares
W. Hardrock	825	—	—375	450
T. Silver	—	100	+100	200
F. Gold	—	75	+ 75	150
Trustee for the company ..			+200	200
	825	175	—	1,000

Statement of Syndicate Operations

Proceeds of sale of 9,000 common shares at $3.00 per share				$27,000.00
Distributed:	W. Hardrock	450/800	$15,187.50	
	T. Silver	200/800	6,750.00	
	F. Gold	150/800	5,062.50	27,000.00

Cash Statement of Northland Mining Company Limited

Proceeds of issue of 175 preference shares at $100 per share	$17,500.00
Proceeds of sale of 200 preference shares at $102 per share	20,400.00
	$37,900.00

Northland Mining Company Limited

Balance Sheet

After the sale of donated shares

Assets		Capital and Surplus	
Cash on hand	$ 37,900	*Share capital fully paid:*	
Mining claims (at cost)	82,500	1,000 7% preference shares of $100 each ..	$100,000
		10,000 common shares of no par value	—
			100,000
		Capital surplus (arising from sale of donated preference shares) ..	20,400
	$120,400		$120,400

Note: In order to avoid showing the common shares of no par value to have been issued for no consideration a nominal sum might be taken as the consideration and be added to the cost of the mining claims.

PROBLEM II

FINAL EXAMINATION, DECEMBER 1941

Accounting IV, Question 2 (20 marks)

A municipality has adopted a by-law authorizing the issue of $50,000 5% debentures, the proceeds to be used for the construction of a park.

The debentures are sold, at par, to a life insurence company. The debentures are dated 30th June 1939 and mature 30th June 1979, interest payable semi-annually on 31st December and 30th June; an annual sinking-fund payment of $900 is to be paid annually commencing 30th June 1940 to trustees.

The park site is acquired and construction completed at a cost of $53,500, the balance of $3,500 being provided from surplus revenue funds by resolution of the council.

You are required to give the journal entries necessary to record all transactions in connection with the above (including any indicated closing entries) up to and including 30th June 1940, clearly indicating in which "fund" accounts the entries would occur. (The municipality's fiscal year ends on 30th June.)

SOLUTION

Capital fund:

30th June 1939		
Cash	$50,000	
Debentures issued		$50,000
Proceeds of sale of $50,000 5% debentures maturing 30th June 1979 by-law No.		
Revenue fund	3,500	
Capital surplus		3,500
Appropriation of surplus revenue by resolution of council dated		
Cash	3,500	
Revenue fund		3,500
Receipt of appropriation of surplus revenue		
Park site and improvements	53,500	
Cash		53,500
Cost of construction of park in accordance with by-law No.		

Revenue fund:

30th June 1939		
Surplus	3,500	
Capital fund		3,500
Grant as per resolution of council dated		
Capital fund	3,500	
Cash		3,500
Payment of above grant		

31st December 1939

Interest on debentures	1,250	
Cash		1,250
Payment of interest for ½ year to date on $50,000 5% debentures		

30th June 1940

Interest on debentures	1,250	
Cash		1,250
Payment of interest for ½ year to date on $50,000 5% debentures		
Loan redemption	900	
Sinking fund trustees		900
Sinking fund instalment for year to date on $50,000 5% debentures		
Sinking fund trustees	900	
Cash		900
Payment of sinking fund moneys		
Revenue and expenditure	3,400	
Interest on debentures		2,500
Loan redemption		900
Writing off cost of servicing $50,000 5% debentures for year to date		

Sinking fund:

30th June 1940

Revenue fund	900	
Sinking fund reserve		900
Requirements of sinking fund for $50,000 5% debentures for year to date		
Cash	900	
Revenue fund		900
Receipt of sinking fund money re above		
Sinking fund trustees	900	
Cash		900
Payment of sinking fund moneys to trustees for investment re above		

PROBLEM III

FINAL EXAMINATION, DECEMBER 1941

Accounting IV, Question 3 (20 marks)

A new company is being organized to deal in a product which is shipped to customers in cylinders of various sizes. These containers are valuable, and remain the property of the selling company, and the usual method employed in the industry is to bill the customer for the container at a fixed price at time of shipment, and to allow credit at the same price on its return.

The cost of new cylinders varies from time to time, but always exceeds the price at which they are billed to customers.

The drums are subject to depreciation, and a certain number are scrapped each year as unusable.

You are required to suggest a proper method of accounting for these containers, whereby the company will be able to know the location of each cylinder at any time, and whereby its container inventory may be accurately established at the end of its fiscal year.

SOLUTION

Cylinders should be charged as they are purchased to an asset account called "New cylinders." Each cylinder should be numbered and a card ledger be maintained for each container showing its number, size, cost and amounts set up in respect of depreciation thereto.

When cylinders are placed in use another asset account called "Cylinders in use" should be charged at cost and "New cylinders" account be credited.

When cylinders are shipped to customers "Accounts receivable" should be debited with the full amount of the invoice (goods and containers) and the amounts charged for containers be credited to a liability account "Deposits on cylinders." There is no need to credit "Cylinders in use" account but a statistical record should be kept showing the cylinders which should be on hand and those in possession of customers. The return of cylinders by a customer calls for a credit to the customer's account and a corresponding charge to "Deposits on cylinders" account.

Steps should be taken to see that cylinders are returned within a reasonable time.

Each cylinder should be depreciated at the end of each accounting period according to its estimated life and the charge be noted on the card record. The aggregate of these charges will agree with the general ledger account "Reserve for depreciation of containers."

When a cylinder is scrapped the cost should be credited to "Cylinders in use," the amount of accrued depreciation charged to the depreciation reserve and any balance transferred to "Container cost" to be written off to profit and loss.

The inventory would consist of:

New cylinders at cost

Cylinders in use, less reserve for depreciation.

PROBLEM IV

FINAL EXAMINATION, DECEMBER 1941

Accounting IV, Question 4 (25 marks)

The Eureka Sand Company produces a high-grade molding sand for use in foundries. The company owns a large deposit of this sand and has built a plant for crushing and grading it. The sand (which lies close to the surface) is excavated by steam shovel and hauled to the plant in dump cars over the company's railroad. After crushing, it is loaded direct into standard cars and hauled by the company's locomotive to the main line of the National Railway Company. The sand is sold f.o.b. this junction.

The steam shovel is occupied most of the time in excavating sand, but is used occasionally for digging right-of-way and dumping ballast for new spur tracks to reach additional sand deposits. The locomotive hauls the sand to the crushing plant and from the plant to the main line of the railroad.

The company's railroad track from the main line to the plant is well laid and maintained, and will last at least until the exhaustion of the entire sand deposits. The spur tracks from the plant are of temporary construction, and are useful only as long as sand can be taken out at a particular point. The number of tons reached by each

spur is usually about 60,000. After completion of excavation at that point the track is torn up. The rails can be used again for other spur tracks, but the ties and ballast are of no value.

The company plans to keep on hand at the plant a fair-sized stock pile of both rough and crushed sand, to be used as an emergency supply, and also to carry over during the winter season when mining operations are impossible. The fiscal year ends 30th November, which is the end of the mining season.

The following is the unadjusted trial balance of the company's books at 30th November 1941, and from the additional data furnished you are required to prepare:

(a) Cost statement

(b) Profit and loss account

(c) Balance sheet.

Additional data:

Steam shovel operated 2,000 hours, of which 150 were in construction of spur track 3.

Locomotive operated 2,700 hours, of which two-thirds were in hauling to plant and one-third from plant to main line.

Rails valued at $425 were recovered from spur track 1 and used in construction of spur track 3, which was just completed at 30th November.

About 4,000 tons of sand remain to be taken out at the location reached by spur track 2.

Taxes to be distributed: plant, 40%; steam-shovel, locomotive and main track, 15% each; dump cars, 10%; and spur track 2, 5%.

Coal consumed: plant, 50%; steam shovel and locomotive, 25% each.

The steam shovel, locomotive and dump cars are all expected to last about 5 years from 1st December 1941.

The plant will outlast the sand deposits, but will have no salvage value. The land will be worthless when the sand has been exhausted.

Inventories at 30th November 1941 were as follows: crushed sand, 5,000 tons; rough sand, 4,000 tons; coal, 35 tons; plant operating supplies, $877.

Trial Balance, 30th November 1941

Cash	$ 9,000	
Accounts receivable	7,390	
Inventories—1st December 1940:		
Crushed sand (3,000 tons)	1,860	
Rough sand (1,000 tons)	210	
Coal (52 tons)	208	
Plant operating supplies	1,014	
Crusher plant (building, machinery and equipment)	40,000	
Railroad track—Main	12,500	
Railroad track—Spur 1	565	
Railroad track—Spur 2	1,860	
Dump cars	2,400	
Locomotive	10,200	
Steam shovel	15,000	
Sand deposits (estimated 500,000 tons)	12,500	
Accounts payable		$ 4,250
Notes payable		15,000

Capital stock		75,000
Surplus		2,063
Sales of sand—51,000 tons		56,100
Labour:		
Plant operating	14,236	
Steam shovel operating	2,827	
Locomotive operating	2,235	
Plant repairs	1,218	
Steam shovel repairs	137	
Locomotive repairs	109	
Dump car repairs	196	
Railroad main track repairs	168	
Spur track 2 repairs	283	
Construction spur track 3	622	
Dismantling spur track 1	124	
Materials and repair parts:		
Plant repairs	480	
Steam shovel repairs	68	
Locomotive repairs	109	
Dump car repairs	79	
Railroad main track repairs	127	
Spur track 2 repairs	46	
Construction spur track 3	383	
Coal purchased (301 tons)	1,204	
Plant operating supplies purchased	1,201	
Taxes on real estate	1,000	
Selling expenses	6,880	
Administrative expenses	3,048	
Interest paid	926	
	$152,413	$152,413

SOLUTION
THE EUREKA SAND COMPANY
Compilation and distribution of service costs
Year to 30th November 1941

Item	Coal	Plant Supplies	Spur Track 1	Spur Track 2	Spur Track 3	Steam Shovel	Loco-motive	Dump Cars
Inventory, 1st December 1940	$ 208	$1,014	$ 565	$1,860				
Purchases	1,204	1,201						
Labour					$ 622	$2,827	$2,235	
Repairs—labour			124	283		137	109	$ 196
—materials				46	383	68	109	79
Taxes				50		150	150	100
Depreciation						2,500	1,700	400
			689					
Rails from Spur 1 to Spur 3			—425		+425			
Totals	1,412	2,215	264	2,239	1,430	5,682	4,303	775
Less: Inventory 30th November 1941	140	877						
	1,272	1,338						
Coal charged to steam shovel and locomotive	—636					+318	+318	
	636					6,000	4,621	
Steam shovel charged to Spur 3					+450	—450		
	$ 636	$1,338	$ 264	$2,239	$1,880	$5,550	$4,621	$ 775
Distribution								
Mining			264	2,090		5,550	3,081	775
Crushing	636	1,338						
Transportation							1,540	
Residual value per balance sheet				149	1,880			
	$ 636	$1,338	$ 264	$2,239	$1,880	$5,550	$4,621	$ 775

THE EUREKA SAND COMPANY

Statement of Operations for the Year Ending 30th November 1941

Item	Tons	Mining	Tons	Crushing	Tons	Transportation
Cost from mining operations				$12,430		
Service costs						
Steam Shovel		$ 5,550				
Locomotive		3,081				$ 1,540
Dump Cars		775				
Spur Track 1		264				
Spur Track 2		2,090				
Depletion—56,000 tons at .025		1,400				
Coal				636		
Plant Supplies				1,338		
Labour				14,236		
Plant repairs (labour)..				1,218		168
Plant repairs (materials)				480		127
Taxes				400		150
Depreciation—						
53,000 tons at .08				4,240		—
51,000 tons at .025 ...						1,275
		$13,160		$34,978		$ 3,260
	Tons		*Tons*		*Tons*	
Output	56,000		53,000		51,000	
Costs per ton (cents)		23.5		66.0		6.4
Opening inventory..	1,000	$ 210	3,000	$ 1,860		
Production	56,000	13,160	53,000	34,978		
	57,000	13,370	56,000	36,838		
Closing inventory ..	4,000	940	5,000	3,300		
Transferred to crushing	53,000	$12,430				
Sold			51,000	$33,538		

Item	Tons	Amount	Per ton
Sales	51,000	$56,100	$ 1.100
Less: Transportation costs	—	3,260	.064
		$52,840	$ 1.036
Cost of sales		$33,538	.657
Gross profit		$19,302	.379
Selling expense		6,880	

Administrative expense	3,048	
Interest	926	
	10,854	.213
Net profit	8,448	.166
	$19,302	$ .379

THE EUREKA SAND COMPANY

Balance Sheet as at 30th November 1941

ASSETS

Current assets			
Cash		$ 9,000	
Accounts receivable		7,390	
Inventories:			
Rough sand	$ 940		
Crushed sand	3,300		
Coal	140		
Plant supplies	877	5,257	$ 21,647
Fixed assets			
Crusher plant	40,000		
Less: Depreciation	4,240	35,760	
Railroad track, main	12,500		
Less: Depreciation	1,275	11,225	
Railroad track, Spur 2		149	
Railroad track, Spur 3		1,880	
Dump cars	2,400		
Less: Depreciation	400	2,000	
Locomotive	10,200		
Less: Depreciation	1,700	8,500	
Steam shovel	15,000		
Less: Depreciation	2,500	12,500	72,014
Sand deposits		12,500	
Less: Depletion		1,400	11,100
			$104,761

LIABILITIES AND CAPITAL

Current liabilities			
Accounts payable		$ 4,250	
Notes payable		15,000	$ 19,250
Capital and Surplus			
Capital stock		75,000	
Surplus:			
Balance at 1st December 1940	$ 2,063		
Profit for year to date	8,448	10,511	85,511
			$104,761